Manitoba Fiscal Performance Review

Phase 2 Report
Business Case – Social Housing

Notice

This Phase 2 report (the “Report”) by KPMG LLP (“KPMG”) is provided to The Province of Manitoba’s Treasury Board represented by the Minister of Finance (“Manitoba”) pursuant to the consulting service agreement dated July 14, 2016 to conduct an independent fiscal performance review (the “Review”) of core government spending (except the Department of Health) for Manitoba.

If this Report is received by anyone other than Manitoba, the recipient is placed on notice that the attached Report has been prepared solely for Manitoba for its own internal use and this Report and its contents may not be shared with or disclosed to anyone by the recipient without the express written consent of KPMG and Manitoba. KPMG does not accept any liability or responsibility to any third party who may use or place reliance on our Report.

Our scope was limited to a review and observations over a relatively short timeframe. The intention of the Report is to develop business cases for select areas of opportunity. The procedures we performed were limited in nature and extent, and those procedures will not necessarily disclose all matters about departmental functions, policies and operations, or reveal errors in the underlying information.

Our procedures consisted of inquiry, observation, comparison and analysis of Manitoba-provided information. In addition, we considered leading practices. Readers are cautioned that the potential cost improvements outlined in this Report are order of magnitude estimates only. Actual results achieved as a result of implementing opportunities are dependent upon Manitoba and department actions and variations may be material.

The procedures we performed do not constitute an audit, examination or review in accordance with standards established by the Chartered Professional Accountants of Canada, and we have not otherwise verified the information we obtained or presented in this Report. We express no opinion or any form of assurance on the information presented in our Report, and make no representations concerning its accuracy or completeness. We also express no opinion or any form of assurance on potential cost improvements that Manitoba may realize should it decide to implement the options and considerations contained within this Report. Manitoba is responsible for the decisions to implement any options and for considering their impact. Implementation will require Manitoba to plan and test any changes to ensure that Manitoba will realize satisfactory results.

Table of Contents - Social Housing

1.1 Organizational Needs and Desired Outcomes

Manitoba engaged KPMG to conduct an independent fiscal performance review. Per the 2016 Budget and subsequent announcements, Manitoba's intent is to reduce the *growth* of core government spending, not *overall* government spending itself. This objective will be achieved primarily by increasing efficiencies and value for money and better allocation of fiscal resources, without adversely impacting front-line services.

As part of the Phase 1 Scoping engagement, KPMG noted escalating costs in Housing and the Employment, Income and Rental Assistance Program, and identified Social Housing as a medium-term transformational opportunity to help contain core government costs and bend the cost curve.

The Fiscal Performance Review (FPR) Steering Committee selected Social Housing as one of six areas of opportunity for further investigation and business case development during Phase 2. Business cases are intended to provide a deeper dive into each specific area, providing information, analysis, and options for Government to consider in its decision-making for 2017/18 and beyond. The Social Housing Business Case is designed to:

- Assess current housing policy, programs and funding (including Rent Assist) which have increased sharply, in the context of the recent transfer of these programs to Families;
- Consider leading practices, trends and alternative financing in social housing; and
- Investigate and identify viable policy and program options to reduce the growth rate of spending, while protecting front-line services and vulnerable Manitobans.

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1.2 Description of Approach

Social Housing	
Description	For this business case, "Social Housing" is broadly interpreted as the array of housing programs and supports that Government provides to low-to-moderate income individuals, families and seniors through the Rent Assist Program within the Department of Families, and the social and affordable housing programs and related services delivered by the Manitoba Housing and Renewal Corporation (MHRC). This business case presents a deeper dive into the social housing current state, developing a medium-term transformational focus and policy and program options for the provision of social housing, to control escalating costs and enhance value for money, client services and accountability for results. As this is an area for medium-term transformation, the business case is a starting point, providing analysis, directions and options at a high level. As per the work plan that was approved by the Fiscal Performance Review (FPR) Steering Committee on October 14, 2016, a core KPMG team was responsible for the day-to-day work and developing this business case. Manitoba representatives of the core team were responsible for providing information and data to KPMG, as well as assisting with insights and feedback on implications associated with transformation options. It is important to emphasize that this is <u>not</u> an audit of MHRC or its programs or the Rent Assist Program. Elements of this business case have been informed by a current state assessment of core government housing programs and services, based on available data and information, as well as KPMG's own research and experiences with social housing trends and practices in Canada and abroad (e.g., UK, Australia, New Zealand). It should be noted that the lack of a comprehensive "whole of system" view of social housing needs and supply means that it is not possible to fully assess the viability of options identified. As social housing requires more fundamental transformations, this business case presents a plan to move forward in 2017/18 towards a transformation vision that should be confirmed as part of the development of the anticipated poverty and housing strategies. The Department will need to conduct ongoing analysis, further explore options and develop its own plans.

2.1 Problem/Opportunity Statement

"Canada's social housing sector is in a period of unprecedented change nationally, provincially and locally. Expiring operating agreements, aging buildings, limited new programs and resources to build new social housing for low-income populations, and lack of affordable housing are among the main pressures facing our housing system and communities. These cumulative challenges call for nothing short of a fundamental shake-up of the sector and new ways of doing business now and into the future."

- Housing Partnership Canada. Business Transformation: Promising Practices for Social and Affordable Housing in Canada (September 2015)

Manitoba currently provides a number of different housing programs and supports for low-to-moderate income individuals, families and seniors. The largest of these programs is rental housing which encompasses social housing and affordable housing, and is delivered through MHRC owned and operated units, MHRC owned and sponsor operated units, units owned by community groups including not-for-profit organizations (NPOs), co-operative housing or urban indigenous groups and units owned by private landlords. The level of subsidy provided depends on the unit, the tenant within the unit and the delivery agent.

Rent Assist is a financial benefit for people who receive Employment and Income Assistance (EIA) and have housing costs to cover and is also available to other low-income private renters. The Rent Assist program is delivered by the Department of Families.

MHRC delivers a variety of other programs that include grants and subsidies and housing support programs. The programs include emergency shelter support, renovation and repair programs, the Rental Housing tax credit, home ownership programs and others. These programs have been designed to assist those along the Housing Needs Continuum, which is illustrated on the following page.

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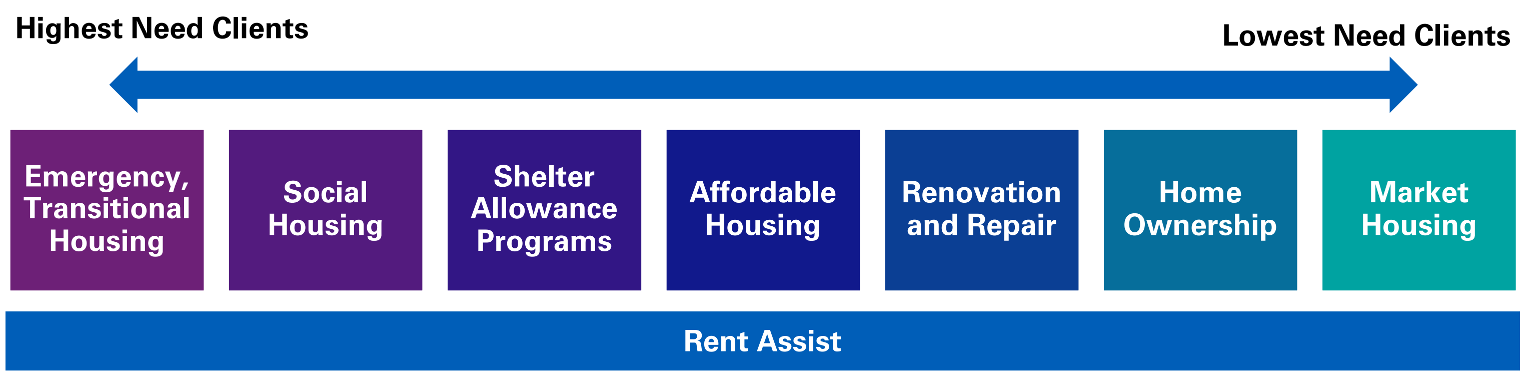
2.1 Problem/Opportunity Statement

Housing programs and services have historically been planned and delivered in a relatively disjointed manner, residing in separate organizations with different leadership styles and priorities, and varying degrees of collaboration. In the absence of an integrated view of needs and supply, and a strategy with client-centred measurable outcomes, there are no clear pathways between different points to move along the housing needs continuum toward self-sufficiency and home ownership. Instead various points along the continuum become end points, with little to no incentives to progress toward self-sufficiency.

The Housing Needs Continuum



Source: Derived from information provided by MHRC and Manitoba.

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2.1 Problem/Opportunity Statement

Not unlike many other jurisdictions in Canada and abroad, Manitoba faces significant and mounting pressures and costs, including:

- ***Aging Government stock***: A significant percentage of subsidized housing is owned by MHRC and over 35 years old. Repairs and Maintenance (R&M) expenditures and Modernization and Improvement (M&I) capital spend were low for many years, necessitating significant expenditures (along with the resulting amortization and interest costs) in recent years, which are forecasted to continue should Government continue to own the stock. In some areas, there are chronically vacant units which continue to require operating expenditures and do not earn revenue. The age and condition of the stock also means that in some cases this stock is not suitable to meet the current housing needs of certain groups (e.g., older buildings do not comply with modern accessibility criteria for those with mobility issues; small units are not adequate for large, inter-generational immigrant families, etc).
- ***Growing demand***: Market rents and home ownership costs are rising faster than incomes. Both EIA and non-EIA Rent Assist caseloads have increased since the program was introduced. It is unclear if and when this growth will slow.
- ***Insufficient market capacity and capabilities***: There are a large number (300+) of small community-based organizations operating independently giving rise to disjointed services, duplications and inefficiencies, and limited opportunities for economies of scale and service innovation. The current capacity of private sector providers is unclear based on the data and information that was provided to KPMG.
- ***Declining sources of funding, escalating costs and stagnant revenue:*** MHRC received $47.2M under the current Social Housing Agreement with the federal government; by 2022 this will decrease to $31M and will be nil by 2032. MHRC also receives $10.3M under the Investment in Affordable Housing agreement which expires in 2019. The loss of this funding will increase the financial challenges MHRC faces in the future. The federal government is currently working on a national housing strategy and will provide $67M in funding to Manitoba over the next two years through the Social Infrastructure Fund. Future federal funding as part of a new National Housing Strategy is yet to be defined. MHRC is also facing rising debt service costs, operating costs that are rising faster than revenues, and stagnant revenue, as outlined in our current state analysis.

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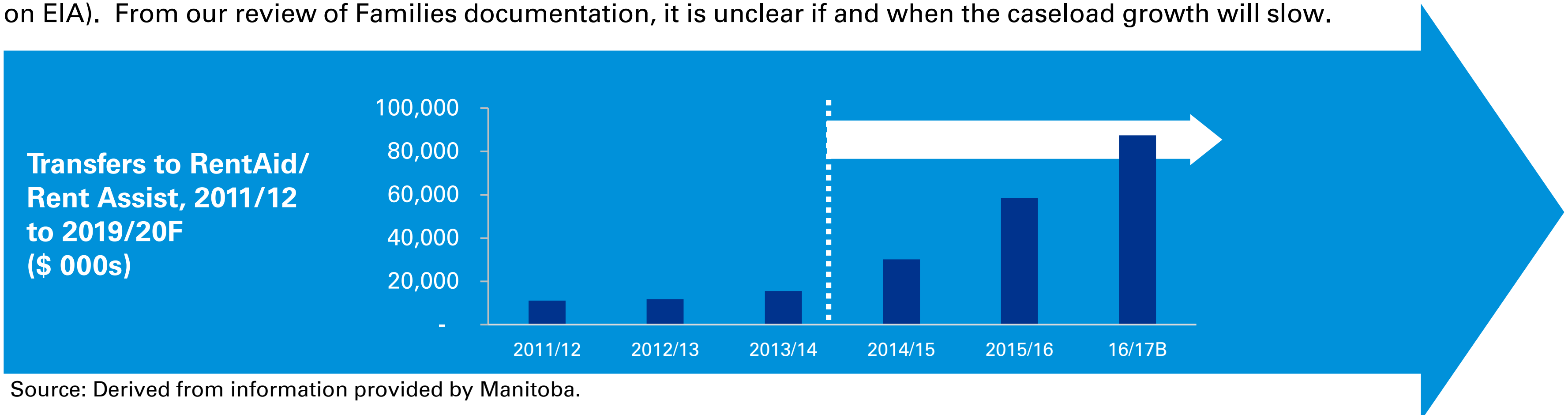
2.1 Problem/Opportunity Statement

The following charts show the increase in Manitoba transfer payments to MHRC and spend on RentAid/Rent Assist since 2011/12.

In aggregate, since the Rent Assist program was introduced in 2014/15, the program has increased $72.9M or 463% over the final full year of the RentAid program in 2013/14 (increase of $55.1M or 491% for those on EIA and $16.9M or 390% for those not on EIA). From our review of Families documentation, it is unclear if and when the caseload growth will slow.



Source: Derived from information provided by Manitoba.

The transfer payment from Manitoba to MHRC has increased $60.6M (90.8%) from 2011/12 to 2016/17 Budget. In the 2016/17 Budget, the transfer payment increased 59.2%, or $46.0M, from the 2015/16 Budget. Based on MHRC's current forecasts, the transfer payment from the Province will increase a further $34.5M or 27.9% by 2019/2020 to $162.6M if the status quo is maintained.

Source: Derived from information provided by Manitoba.

2.1 Problem/Opportunity Statement

Improvement efforts to date are insufficient

Manitoba Housing and Renewal Corporation (MHRC) initiated a number of continuous improvement efforts beginning around 2009 (in areas such as planning, LEAN business process improvement, performance measurement and reporting) to improve operational excellence and help address fiscal sustainability challenges. Government also made investments in recent years in new and existing stock.

While MHRC's current efforts and proposed measures are positive, they are relatively small in terms of dollars, are incremental and, in some cases, temporary.

Families 2017/18 Preliminary Estimates request (which includes Rent Assist and MHRC) notes growing Rent Assist caseloads and related costs, higher incremental debt servicing costs (an additional $6.8M) and a reduction of anticipated profits from land sales that go into the Housing Development and Rehabilitation Fund (HDRF) ($4.8M), which has been historically used as a source for operating funds. Higher costs are offset by a one-time proposal to sell assets to the private sector and community-based organizations (in aggregate $21.6M). In keeping with past practice, proposals (and other strategies currently being explored) continue to be identified separately for Rent Assist and for MHRC.

We note that future caseload volumes and costs are not factored into Families 2017/18 Preliminary Estimates submission. Families' response creates potential for actual 2017/18 costs to be significantly higher than budgeted, if Families proposals are approved as-is, which in turn places Government's fiscal sustainability objectives at risk. Further, the proposal to put legislated annual Rent Assist indexing on hold means benefits may not keep pace with actual shelter costs.

In summary, the provision of social housing in Manitoba is disjointed, and current policies and programs are not financially sustainable. The status quo is clearly not a viable option – more fundamental changes are needed within the context of an overall Transformation Framework, that includes a combination of shorter-term measures designed to help contain costs (e.g., policy adjustments to eligibility requirements, while protecting those most vulnerable), and more structural, transformative changes to meet the housing needs of vulnerable Manitobans and, where practical, help vulnerable Manitobans achieve independence.

2.2 Strategic Alignment with Government Priorities

"Providing safe, secure housing is a fundamental part of our approach to addressing poverty. This budget significantly increases resources to support new construction, improvement and maintenance to the Manitoba Housing and Renewal Corporation's multi-year capital program, to expand and improve affordable housing.

To further assist those in need, this budget provides for full indexation to 75% of Median Market Rent through the Rent Assist program, to help low-income Manitobans who live in private rental housing."

– Manitoba Budget 2016

"Following widespread consultation, we will release a new provincial housing strategy to address homelessness, affordability, repairs to existing housing stock and to increase home ownership amongst those Manitobans in need of adequate housing."

– Manitoba 2016 Throne Speech

Evidence-based accountability requires measuring performance against clearly defined and communicated outcomes that are strategically aligned to Government priorities. Outcomes provide leaders and staff with tools to design programs and services, and to measure how those programs and services perform. Outcomes can be used to better inform annual funding decisions. They also enable an understanding of how initiatives fit within and align to broader Government outcomes.

The table below presents a draft set of strategic outcomes and commitments to consider to demonstrate alignment with Government priorities. These outcomes are based on a variety of sources, including the 2016 Budget and Throne Speech and the Department of Families Ministerial mandate letter. By aligning resources, the activities undertaken and the results achieved, the Province will be better positioned to achieve defined outcomes.

2.2 Strategic Alignment with Government Priorities

The draft set of outcomes, commitments and indicators identified in the table below should be refined to align with Government's provincial poverty reduction and housing strategies, once developed. Achieving desired outcomes relies on all stakeholders involved in the provision of social housing working towards the same objectives, such that there are clearly defined pathways between different points along the continuum of supports and needs that move vulnerable Manitobans toward self-sufficiency and home ownership.

Sample Strategic Outcomes and Indicators for Social Housing	
Sample Strategic Outcomes and Commitments	- Most improved Province – leading in finding solutions - Support for Vulnerable Manitobans - Protection and Safety of Manitoba Children - Increase self-sufficiency amongst those Manitobans in need of adequate housing - Foster new business, social and community partnerships, aimed at giving Manitobans work and social supports through Social Impact Bonds (SIBs). SIBs will improve the outcomes of front-line services, benefiting low-income Manitobans who rely on them - Create innovative community and private sector partnerships that promote practical home ownership opportunities for First Nations and Metis families (such as the partnership between The Manitoba Real Estate Association and the Assembly of Manitoba Chiefs) - Renew the agenda for poverty reduction - Develop a new Manitoba housing strategy
Sample Indicators	- Households in core housing need - Total units of social and affordable housing supported by Manitoba Housing and Renewal Corporation - New households served through Manitoba Housing and Renewal Corporation programs and services (excluding those entering social housing) - Number of new partnerships with the private sector and with First Nations and Metis organizations that promote practical home ownership opportunities - Number of Manitobans accessing housing and supports achieving independence

2.3 Scope and Key Assumptions

Social Housing	
Scope	The scope of this business case is confined to the Manitoba Housing and Renewal Corporation (MHRC) as delivery agent for social and affordable housing, along with the Rent Assist Program within the Community Service Delivery Division of the Department of Families. Consideration has been given to core government capital and operating expenditures, as well as transfers to third parties.

Key Assumptions	– Government is interested in leading and sustainable practices for the provision of social housing in Manitoba, taking into consideration transformational trends and opportunities from other jurisdictions such as Canada, Australia, New Zealand and the UK.
	– Front-line services and vulnerable Manitobans are not be adversely affected.
	– Government will honour existing collective bargaining agreements.
	– While there may be some opportunities for short-term cost improvements, material cost improvements (i.e., bending the cost curve) need to be achieved over the medium to long-term, depending on the timing and extent of transformation decisions made by Government.
	– Limitations that may increase the time needed to transform and reduce the growth in social housing spending include:
	  – Previously announced government commitments;
	  – Government staff and community-based service providers' current capacity and capabilities; and
	  – Challenging economic and market conditions.

3.1 Fiscal Performance Review Framework and Evaluation Criteria

Alignment of Options with Fiscal Performance Review Framework and Key Evaluation Criteria

KPMG will present potential options for long-term transformation, as well as shorter-term measures which could be considered to start to contain costs, within the context of the Fiscal Performance Review Framework and Key Evaluation Criteria.

Key Evaluation Criteria		
Alignment		— Families and MHRC should focus on core business through delineating policy, regulation, oversight and accountability (Manitoba's role) from service delivery (market providers). — Options presented will assist Government to bend the cost curve, ensure sustainability, and improve services. — Government has also committed to pursue innovative social, business and community partnerships and Social Impact Bonds.
Economy and Efficiency		— Shorter-term measures (e.g., merge Rent Assist and MHRC programs, and consider redirecting available funds based on whole of system needs) will reduce duplication and overlap and inefficiencies requiring attention.
Effectiveness		— Options presented promote a system-wide view, integrated service delivery, greater use of partnerships and collaboration, and performance-based outcomes and payments.
Implementation/ Transition Risk		— Substantial efforts in planning, implementation, transition and overall reform are required. Current staff may not possess the skills and abilities required. Some staff may be resistant to change. Existing relationships with non-performing community-based providers will be impacted.

Rating Scale: Strongly Positive (5) | Moderately Positive (4) | Neutral / Uncertain (3) | Moderately Negative (2) | Strongly Negative (1)

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3.2 Current State

Data Analysis

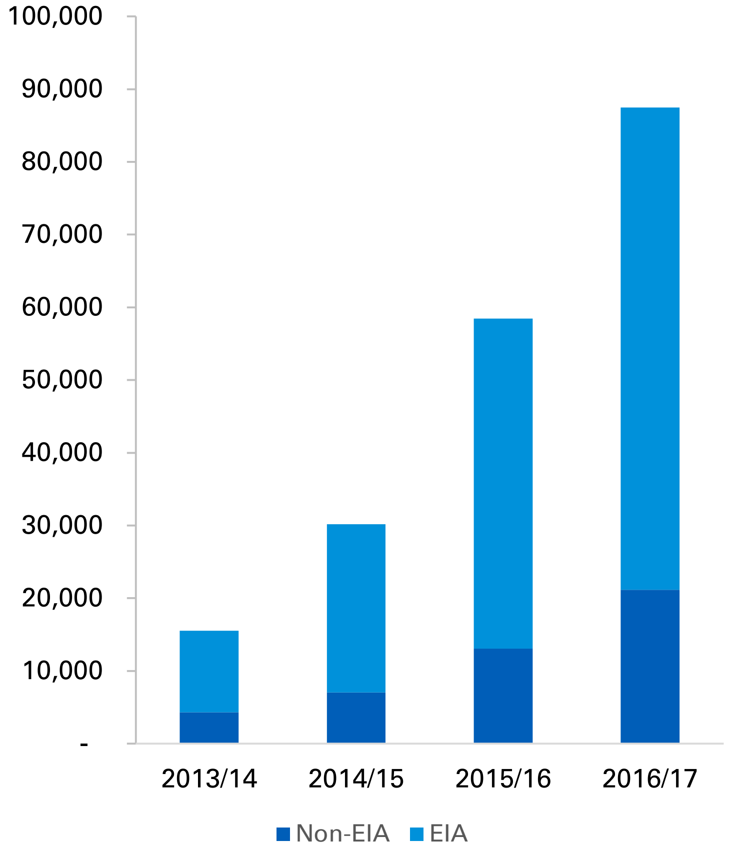
Manitoba provided KPMG with data on social and affordable housing and Rent Assist. The following section presents KPMG's current state findings:

— The Rent Assist program was introduced in Budget 2014 replacing the previous Employment and Income Assistance (EIA) shelter allowance and RentAid programs. Rent Assist is a rent and income-tested, application-based program. The RentAid program provided assistance to low-income Manitobans to meet shelter-related costs in the private rental market and also provide a flat rate monthly benefit for persons with disabilities and adults without dependent children who receive EIA, and live in the private rental market or in room and board accommodations.

— When the Rent Assist program was implemented in July 2014, Rent Assist benefits were extended to single parents and families in the Disability category on EIA, as well as singles and couples without children off EIA. This change in 2014/15 was the primary reason for the increase in Rent Assist program spend over the previous RentAid program by 94.2% (106.2% for those on EIA and 63.0% for those not on EIA) or \$14.6M to \$30.2M in total spend. The caseload increase as a result of this change was a 38.5% increase in the average number of recipients per month for those on EIA and a 37.9% increase in the average number of recipients per month for those not on EIA.

— According to Budget 2014, the benefit under the Rent Assist program was to increase over a four year period with the maximum target rate of 75.0% of Median Market Rent (MMR). MMR rates are determined by the Canadian Mortgage and Housing Corporation (CMHC) based on their Rental Market Survey Data completed each October.

Rent Assist Spend, 2013/14 to 2016/17B ($ 000)



Source: Derived from information provided by Manitoba.

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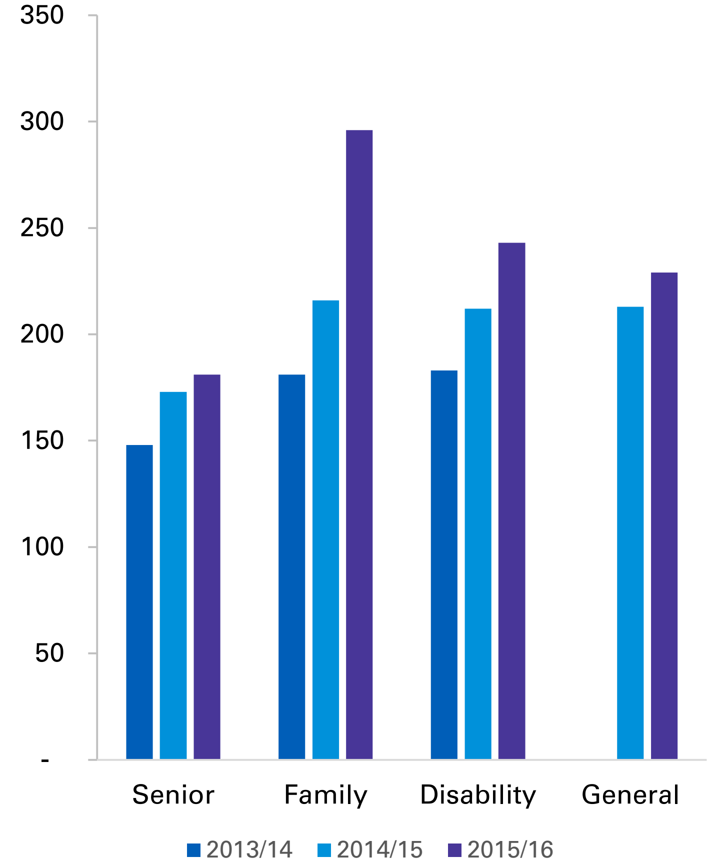
3.2 Current State

- In Budget 2015, the Rent Assist program was fully implemented and benefits increased to the maximum target rent of 75.0% of MMR, three years earlier than planned in Budget 2014. This change in 2015/16 was the primary reason for the increase in Rent Assist program spend of 93.6% over 2014/15 (96.0% for those on EIA and 85.9% for those not on EIA) or $28.3M to $58.5M in total spend. This represents a $42.9M increase in spend, or 276.1%, from 2013/14, the last full year of RentAid, to 2015/16.
- In Budget 2016, the Rent Assist program was further enhanced to index the benefit to 75.0% of the MMR beginning in July 2016. Therefore, this is estimated to further increase the program spend in 2016/17 and it is estimated program spend will increase 49.6% (46.1% for those on EIA and 61.7% for those not on EIA) or $29.0M to $87.5M in total spend. $22.0M of this budgeted increase is due to a full 12 months of increasing the program to 75.0% of MMR (as compared to 3 months in 2015/16) and $7.0M is due to indexing the benefit to 75.0% of MMR. Going forward, indexing the benefit to MMR is estimated to cost between $7.0M-$7.5M annually based on recent trends in the MMR.
- **In aggregate, since the Rent Assist program was introduced in 2014/15, the program has increased $72.9M or 463% over the final full year of the RentAid program in 2013/14 (increase of $55.1M or 491% for those on EIA and $16.9M or 390% for those not on EIA).**
- **The rapidly escalating cost of the Rent Assist Program is not sustainable and bending the cost curve requires changes in policy.**

Average Monthly Rent Assist (Non-EIA) Paid by Category, 2013/14 to 2015/16 ($)



Source: Derived from information provided by Manitoba.

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3.2 Current State

Program Requirements

— When an individual applies for EIA, their eligibility for Rent Assist is also assessed and for those on EIA, Rent Assist benefits are automatically included in the EIA benefit. Therefore, the demand for this portion of the program is dependent on those on EIA. Based on information provided by Families, the caseloads for Rent Assist for those on EIA are increasing steadily. Individuals paying rent in the private market automatically qualify for the maximum benefit amount. For those not paying rent in the private market, the amount of the benefit depends on a number of factors (including mortgage payments, number of people in family, whether live in subsidized unit, etc.)

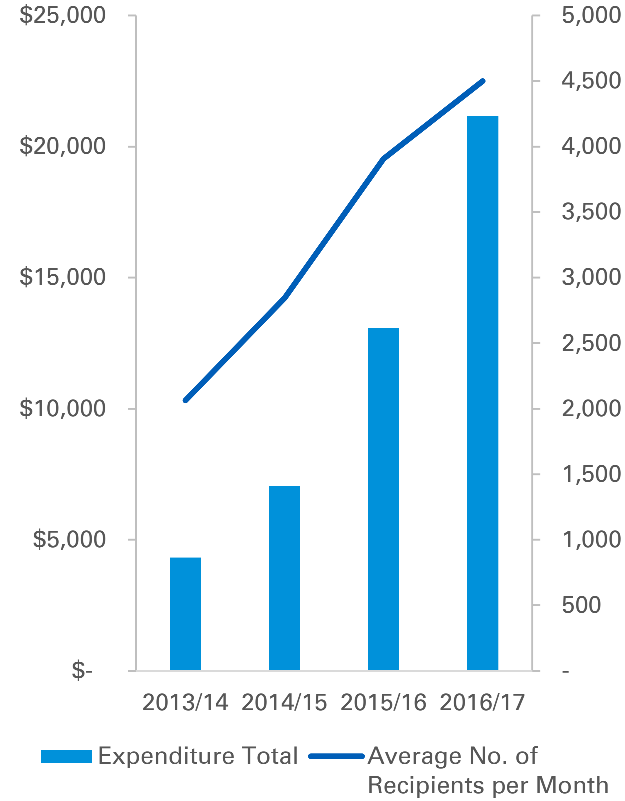
— For those not on EIA, Rent Assist can be applied for if you: pay rent or room and board for unsubsidized housing; have an annual net household income of less than $24,528 for a single person, $28,464 for two persons, $36,384 for three or four persons, or $40,608 for five or more persons; have dependent children in the home and have a household income of less than $36,384 for two to four persons, or $40,608 for five or more persons; are a Canadian citizen or a permanent resident of Canada.

— The actual benefit paid to non-EIA participants in Rent Assist is the difference between 75% of MMR and 25% of household income.

— For the non-EIA portion of the Rent Assist program, as it is an income-tested program, the demand is based on those that meet the eligibility criteria and are aware of the program. Within the 2016/17 estimates, it was estimated that non-EIA rent assist caseloads would increase 15% over 2015/16. However, based on current data from Families, caseloads are now estimated to increase 38% which will further increase costs in 2016/17 and in the future. The increase is coming mainly from those in the family category which received higher benefits compared to seniors or single persons.

— **The non-EIA Rent Assist caseload has increased significantly since its introduction and from our discussions with Families, it is unclear if and when the caseload growth will slow.**

Total Spend on non-EIA Rent Assist ($ 000) and Average Number of Recipients per Month



Source: Derived from information provided by Manitoba.

3.2 Current State

MHRC – Services and Subsidies

- At March 31, 2016, MHRC provides services to 35,182 housing units broken down as follows:
  - 18,213 units – MHRC owned, of which approximately 14,000 units are directly managed and 4,000 are sponsor-managed.
  - 9,670 units – Operated by private non-profit organizations (NPOs), co-operatives (co-ops) and urban indigenous groups for which MHRC provides a subsidy.
  - 3,045 units – owned by private landlords for which MHRC pays a rent supplement.
  - 188 units – under construction at Oct 31, 2016.
  - 4,136 – personal care home beds which are administratively serviced by MHRC.
- The two primary rental subsidies MHRC provides are:
  - Social housing – for low-income individuals – 93% of MHRC directly managed units, and approximately 85% of total units (excluding rent supplement units and some co-ops) are social housing – tenants within social housing pay rent at either the EIA shelter rate or on a rent geared to income (RGI) scale. The subsidy provided by MHRC is effectively anything above the EIA shelter rate or RGI paid. The cash portion of the subsidy would be the costs to operate the unit and the absorbed subsidy is the difference between the cost to operate the unit and economic rent. The net operating costs for these 18,213 units in 2015/16 was $196.4M and the operating loss on these units was $116.7M which is discussed later in this document.
  - Affordable housing – for low to moderate-income individuals – charged a fixed monthly rent depending on their income level and housing needs – these units are primarily those operated by NPOs, co-ops, and urban indigenous groups and represent about 15% of rental subsidies.
  - In addition to affordable rent, individuals in units operated by NPOs, co-ops and urban indigenous groups may pay rent based on RGI, EIA shelter benefit or rent supplement. MHRC enters into agreements with each provider and the subsidy provided by MHRC is in the form of low mortgage interest rates or financial support toward the operations of the co-op or housing complex. The total subsidies provided to NPOs and co-ops in 2015/16 was $29.4M.
- For those units subsidized by the rent supplement, these are for individuals in private rental housing that pay rent based on RGI. MHRC subsidizes the private landlord for the difference between the RGI rent paid by the tenant and the market rent. The total rent supplement paid in 2015/16 was $9.5M.

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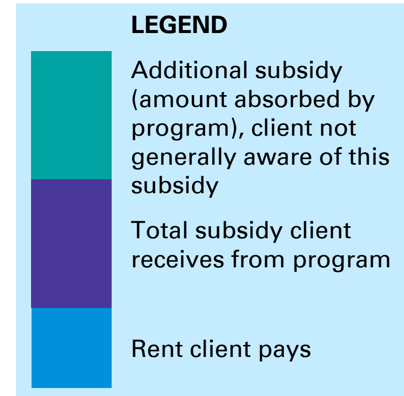
3.2 Current State

This chart, as provided by MHRC, summarizes rent paid for social housing, rent supplement and rent assist.



Source: Derived from information provided by MHRC

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3.2 Current State

The following table provides a broad comparison of rent assist housing programs across British Columbia, Alberta, Saskatchewan, Manitoba, and Ontario. While there are different delivery mechanisms, rent assist is generally aimed at similar target clients (e.g., low-income, vulnerable). Rent geared to income (RGI) formulas are similar in other provinces, however, other provinces set RGI at 30% and Manitoba is lower at 25-27% (thus offering relatively larger subsidies to tenants, yet housing is generally more affordable in Manitoba than other provinces).

Comparison of Rent Assist Housing Programs in Select Provinces

	British Columbia	Alberta	Saskatchewan	Manitoba	Ontario
Administration and Funding	– Crown Corporation – B.C. Housing	– Government Department – Department of Housing	– Crown Corporation – Saskatchewan Housing Corporation	– Crown Corporation – Manitoba Housing	– 47 Service Managers – Largely municipal or regional government
Approximate Annual Revenues & Expenses (in latest fiscal year)[1]	$636M in Revenues $636M in Expenses	n/a	$196M in Revenues $189M in Expenses	$293M in Revenues $305M in Expenses	n/a
Legislation	Ministry of Lands, Parks and Housing Act	Alberta Housing Act	The Saskatchewan Housing Act	The Housing and Renewal Corporation Act	The Housing Services Act, 2011
Rent Assist Program Target Audiences and Eligibility	– Low-income renter in need, seniors, persons with disabilities, victims of family violence, Indigenous people living off reserve. – Gross household income of $35,000 or less, at least one dependent child, and have been employed at some point over the last year.	– Low income renters, low-income Albertans with mobility challenges, seniors. – Must meet the Core Need Income Threshold which differs by municipality and size of unit; priority is on assisting those in most need.	– Low income renter in need, seniors, persons with disabilities, victims of family violence, Indigenous people living off reserve. – Annual gross income at or below limits established by SCH; income threshold dependent on whether the household has a member with a disability, and the number of bedrooms in the dwelling.	– Low income renter in need, seniors, persons with disabilities, victims of family violence, Indigenous people living off reserve. Must have a total household income less then the Program Income Limits set annually by CMHC, at least 18 years old and permanent resident, and cannot be in receipt of any other shelter or rental subsidy program.	– Low income renter in need, seniors, persons with disabilities, victims of family violence, Indigenous people living off reserve. – Various eligibility by municipality or region; similar requirements such as residency, at or below low-income thresholds.
Rent Geared to Income Level	– 30% – Rental fees are calculated on a rent geared to income basis (30% of household total household income before tax, subject to minimum rent based on number of people).	– 30% – Subsidy is based on the difference between 30% of a household's total income before tax and an agreed upon market rent, to a maximum subsidy established by the housing operator.	– 30% – Different thresholds based on community. – Saskatchewan's Social Housing Program provides housing to those without the resources to obtain adequate and affordable housing. The program sets rent at 30% of the total household income, subject to minimum and maximum rents.	– 25-27% – Manitoba subsidizes the difference between the approved market rental rate charged by the landlord and the RGI paid by the qualifying tenant. – Manitoba Housing pays the monthly rent supplement and the tenant pays their portion of the rent calculated as 25-27% of total household income before tax.	– 30% (City of Toronto and other Ontario cities) – Similar formulas to other provinces based on RGI of total household income before tax.

Source: Derived from provincial government websites and various reports.

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3.2 Current State

MHRC – Services and Subsidies

- MHRC has other programs at various points on the housing continuum:
  - Grants and subsidies – total spend in 2015/16 was $5.1M
    - Emergency Shelter Assistance
    - Portable Housing Benefit
    - Homeless strategy
    - Others
  - Housing Support Programs – the funding for these programs is substantially in the form of forgivable loans – total spend in 2015/16 was $16.7M
    - Rental and Cooperating Housing Program
    - Homeowner Renovation Assistance Program
    - Rental Housing Improvement Program
    - Rooming House Assistance Program
    - Shelter Enhancement Program
    - Residential Adaptations for Disability Program
    - Others
- All of the various programs (rental subsidies, rent supplement, grants and subsidies and housing support programs) represent approximately $257.1M in total spend and represent the large majority of MHRC expenditures.

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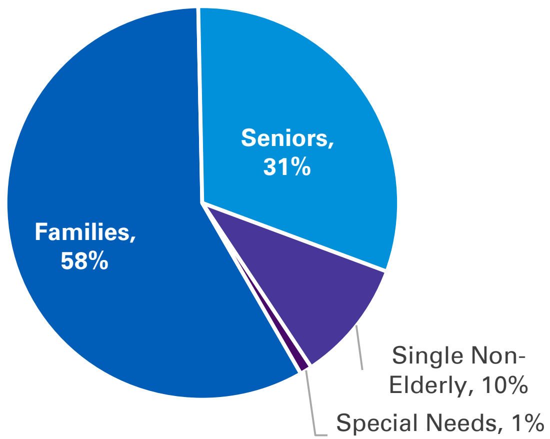
3.2 Current State

MHRC – Services and Subsidies

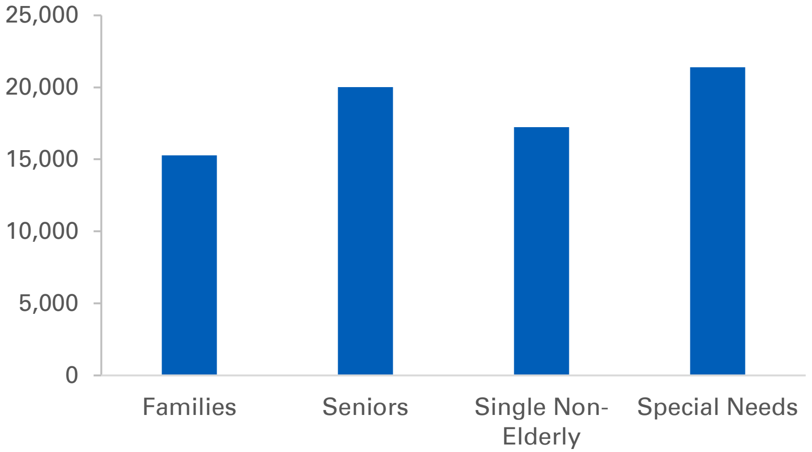
For the direct managed units (approximately 14,000 units), the following was noted in the information provided by MHRC:

- Approximately 27,000 tenants
- Household Types:
  - Families – 58%
  - Seniors – 31%
  - Single non-elderly – 10%
  - Special needs households – 1%
- Average RGI household gross income
  - Families - $15,273
  - Seniors - $20,012
  - Single non-elderly - $17,223
  - Special needs households - $21,382
- 54% of households receive EIA
  - Families – 68%
  - Seniors – 16%
  - Single non-elderly – 14%
- Approximately 13,000 children (under 18) live in MHRC directly managed units which represent 45% of family tenants
- 87% of those in MHRC (2014 figures) are single parent families and 13% are two parent families, 4.3% of households have one or more persons with disabilities.

Household Types, 2015



Average RGI Household Gross Income, 2015 ($)



Source: Derived from information provided by MHRC.

3.2 Current State

MHRC Analysis

In Appendix A, KPMG has included a 5-year trend analysis of MHRC's statement of operations. As described previously, the transfer payment required from Manitoba to support the difference between gross expenditures and revenue has increased over the past five years, including significantly in the 2016/17 Budget and is forecasted to continue increasing if the status quo is maintained. We performed further analysis of MHRC current state to understand this increasing trend. Our analysis has been categorized into matters that relate to supply, demand and fiscal sustainability.

- Supply
  - Aging stock
  - A perceived lack of market capacity and capabilities
- Demand
  - Growing demand
  - Affordability
  - Changing and growing needs of vulnerable Manitobans
- Fiscal Sustainability
  - Declining sources of funding
  - Escalating costs
  - Stagnant revenue

3.2 Current State

MHRC Analysis (continued)

Supply – Aging stock

— Per MHRC data, 70% of private housing stock in Manitoba is over 35 years old with 17% over 68 years old.

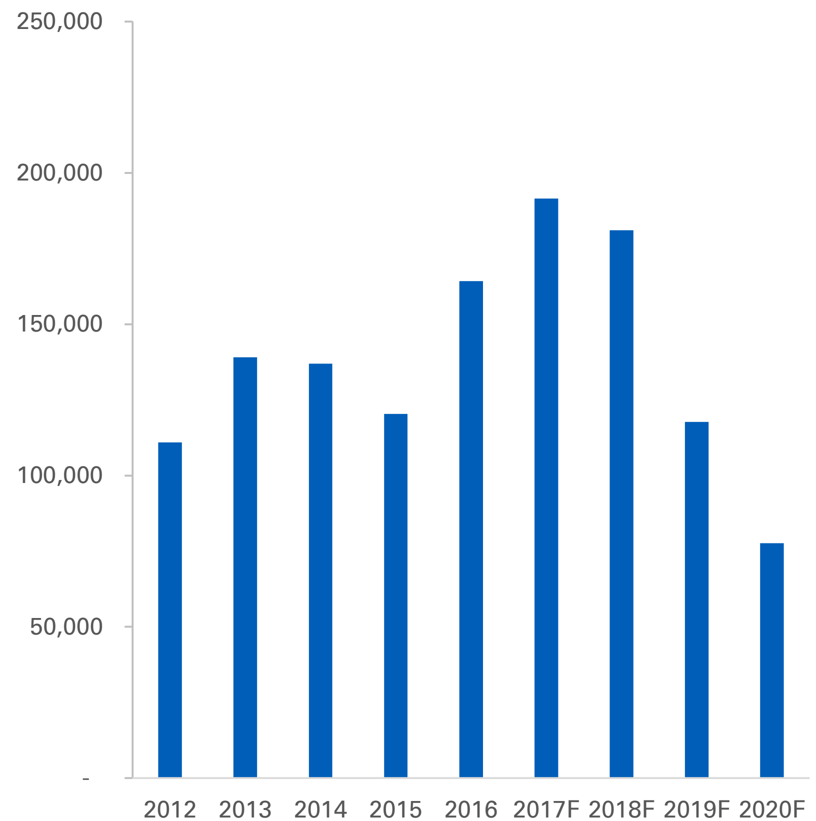
— For MHRC, approximately 67% of subsidized housing stock is over 35 years old.

— Per MHRC, the condition of their buildings is below national average – 26.5% of MHRC's units require minor repairs and 11.8% require major repairs (which would equate to approximately 2,149 units).

— Since 2012, spending on capital assets has been $672.M and MHRC has forecasted to spend a further $570M ($400M on Modernization and Improvements ("M&I") and $170M on new capital supply) over the next 4 years. Note that in MHRC's budget submission for 2017/18, all new capital projects that were previously approved but had not begun were cancelled which totals approximately $83M. The $170M in new capital spend relates to completing projects that are already in progress.

— Per MHRC's 2016/17 strategic plan: "as a result of long standing deferred maintenance a chronic funding shortfall estimated at $1 billion was determined in 2009. Since then, M&I funding has increased annually and $422M was spent from 2009 to 2016." In year 3 of the forecast period (2018/19), MHRC is forecasting a decrease in M&I spending.

Purchase of Capital Assets, 2012-2020F ($ 000)



Source: Derived from information provided by MHRC.

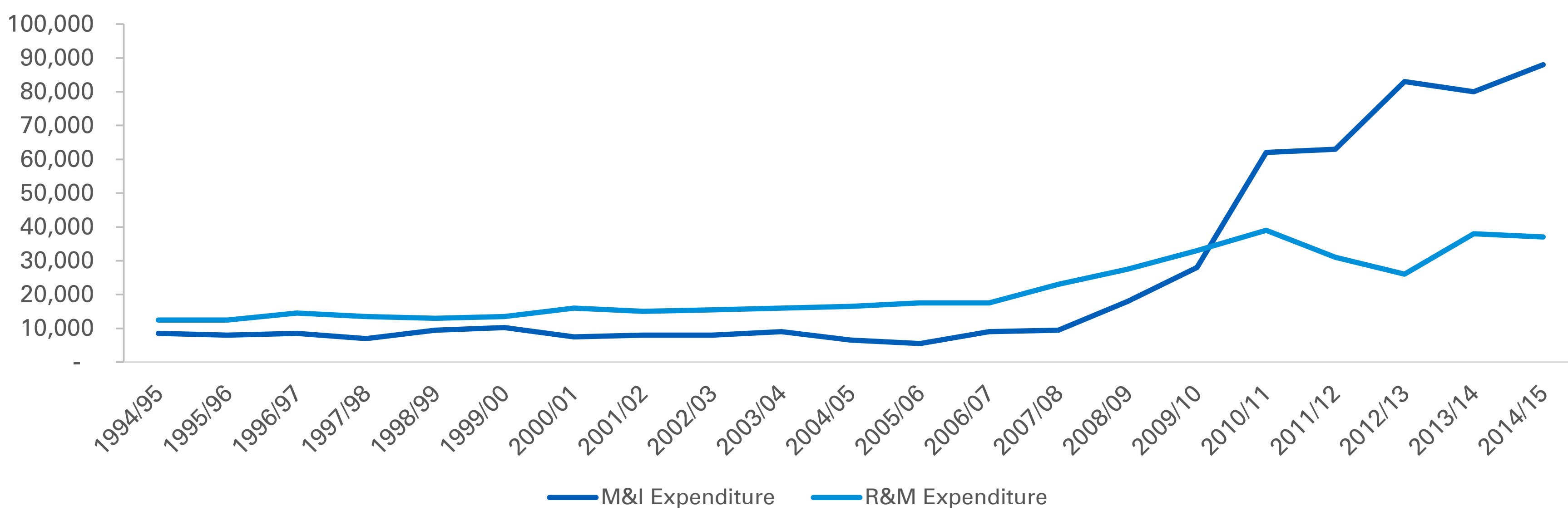
3.2 Current State

MHRC Analysis (continued)

Supply – Aging stock

The graph below shows Repair and Maintenance ("R&M") and M&I spending from 1994/95 to 2014/15. There is an interrelationship between R&M and M&I. Lower R&M over the long term will eventually result in higher M&I. This is a critical consideration for MHRC due to the nature of its housing stock.

Modernization & Improvements and Repair & Maintenance, 1994/95 to 2014/15 ($ 000)



Source: Derived from information provided by MHRC.

The aging housing stock, and the resulting amortization and interest costs related to M&I and capital expenditures, is a significant reason for the increase in costs (and required transfer payment from the Province) and long-term debt. In order to improve the current state, transferring some of the risk related to the these capital assets should be considered.

3.2 Current State

MHRC Analysis (continued)

Supply – A perceived lack of market capacity and capabilities

— At March 31, 2016, approximately 4,000 of the units owned by MHRC are managed by sponsors and 9,670 units are managed by NPOs, co-ops, and urban indigenous organizations. We understand from MHRC that more than 300 community organizations own these units. These conditions are similar for units owned by private landlords for which a rent supplement is paid. Given the number of providers, and the fact that no provider has sufficient scale, significant work is required to build capacity in a relatively small number of stronger, stable high-performers.

— From our interviews with MHRC, they have begun exploring the feasibility of incrementally transferring housing asset ownership of some specific properties to NPO providers. They are currently working on a pilot project to sell 5 projects, comprising 500 units to two non-profit organizations. Based on MHRC's estimates, this could result in a gain on sale of approximately $14.8M. Per MHRC's estimates, there is approximately $6M in capital repairs required on the properties in the near future which would be factored into the selling prices. If the NPOs are able to finance both the acquisition price and the $6M in capital repairs, this would remove the risks of ownership to MHRC and would reduce future Loan Act Authority by $6M.

— Note that all 5 of these projects are 100% RGI units. Currently, these five buildings have an annual operating loss budgeted at $700,000 and debt service costs of $1.1M for a total of $1.8M. Based on current MMR and current tenant rental income in these projects, the subsidy that MHRC will be required to provide is $2.6M if the projects remain 100% RGI units. This could be adjusted if a more mixed tenanting approach is allowed. MHRC notes that a lengthy contribution agreement would be required with the NPOs.

— MHRC notes that there may be significant work and analysis required with the NPO sector before this type of transaction could take place. We understand that the Manitoba Non-Profit Housing Association (MNPHA) is interested in this type of transfer but further discussions are required.

— We note that in MHRC's Strategy and Policy Framework (2011), building greater community capacity was identified as one of six goals. Although we understand from MHRC that they have built relationships in the community, there is minimal evidence that community capacity has increased.

— It is also important that private sector players be incorporated into the assessment of overall capacity and capabilities in the market in order to fully understand supply. This lack of a "whole-of-system" view on supply limits the identification of issues and potential solutions.

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3.2 Current State

MHRC Analysis (continued)

Demand – Growing demand

All of the demand factors discussed on the following pages (and on Rent Assist discussed previously), demonstrate that if the status quo is maintained, costs to meet increasing demand will continue to rise, putting further pressure on the fiscal sustainability of the current social housing model. A significant change in the model will be required to meet these demands.

There are a number of demographic challenges that will impact social housing in Manitoba. Based on review of MHRC information, we noted the following:

— International migration to Manitoba is expected to be 20,000 annually by 2016. Manitoba expects to settle 2,000 Syrian refugees (of which 928 arrived by April 30, 2016).

— In 2014, 16% of those who arrived in Manitoba under the Provincial Nominee Program settled in rural communities including Brandon, Neepawa and Winkler which lowers vacancy rates in those communities.

— Manitoba's Indigenous population has become the fastest growing population group within the province and in some communities the growth rate from 2006-2011 was more than double those in the non-Indigenous population. Indigenous households that live in poverty are more likely to have housing needs compared to other demographics.

— Manitoba's population is aging. Manitobans over the age of 65 are expected to increase to 21% by 2026. Seniors are moving to larger centres which is resulting in chronic vacancy in some rural seniors' projects. Given the age of MHRC housing stock, many are not compatible with modern accessibility criteria and units that do not meet current aging-in-place needs.

— Population and demographic changes are not consistent community to community with lack of demand in some and strong demand in others. There are certain rural regions with chronically vacant units which require operating costs and do not generate any rental revenue. At October 2016, there are 348 chronically vacant units in approximately 160 different projects. These units are often in places with economic decline or labour migration making the properties undesirable for sale and many may need to be re-purposed.

3.2 Current State

MHRC Analysis (continued)

Demand – Growing demand

Changing and growing needs of vulnerable Manitobans – the following was obtained from MHRC's 2016/17 Strategic Plan:

— The homeless, aging seniors, persons with mental or physical disabilities, persons with addictions, youth aging out of care and women fleeing violence require additional supports related to housing.

— Services and resources are often provided by more than one department which is a challenge to coordinate. MHRC indicates gaps exist and some individuals face unmet needs.

— Other social service programs often require housing for their clients which affects MHRC's ability to serve existing clients and transition people from waitlists into housing.

— Per MHRC, "due to the persistence of poverty, increasing housing costs, demand for services and supports for persons with disabilities and other target groups, MHRC will continue to face challenges in meeting the needs of Manitobans and helping them live successfully in the community."

3.2 Current State

MHRC Analysis (continued)

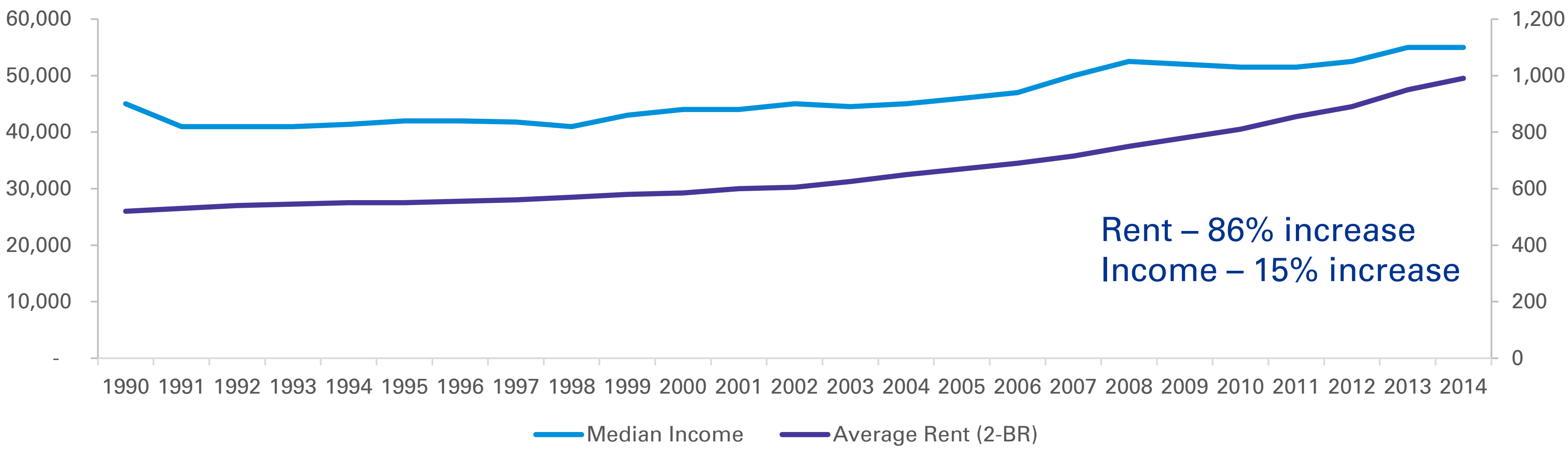
Demand – Growing demand

There are also a number of affordability challenges impacting social housing. Based on review of MHRC data, we noted the following:

— The average rent for 2 bedroom apartment has increased 86% from 1992 to 2015 – from $545 to $1,012 per month. Income growth has increased approximately 15% in the same time period.

— The cost of buying a home in Manitoba has increased over 200% from 1992 to 2015.

Median Household Income Compared to Average Rent (2-Bedroom), Manitoba, 1990-2014 (2014 $)



Source: Derived from information provided by MHRC.

3.2 Current State

MHRC Analysis (continued)

Demand – Growing demand

— Per the 2011 Census, the number of households in Manitoba in core housing need was 10.3% (off-reserve) or 43,410 households. Of these, MHRC estimates that for 70% of this population this is primarily an affordability issue and 50.4% of those who are low-income have a core housing need.

— Per the CMHC, a household is in core housing need if "if its housing falls below at least one of the adequacy, affordability or suitability, standards and it would have to spend 30% or more of its total before-tax income to pay the median rent of alternative local housing that is acceptable.

  — Adequate housing are reported by their residents as not requiring any major repairs.

  — Affordable dwellings costs less than 30% of total before-tax household income.

  — Suitable housing has enough bedrooms for the size and make-up of resident households, according to National Occupancy Standard (NOS) requirements.

  — A household is not in core housing need if its housing meets all of the adequacy, suitability and affordability standards OR, if its housing does not meet one or more of these standards, but it has sufficient income to obtain alternative local housing that is acceptable (meets all three standards)."[1]

— The vacancy rate at the low end of the market is less than 3% (considered a balanced rental market). Although overall vacancy rate has increased it is mainly due to increase in the vacancy rate in the high end of the market. However, the trend at the community level may differ as per MHRC:

  — Winnipeg has 2.9% vacancy rate but is mainly due to supply increases in the high end of the market

  — Brandon's vacancy rate is 2.2% (2015)

  — Thompson's vacancy rate is 2.0% (2015)

  — Parklands region has higher vacancy rates

  — Portage la Prairie is one of Manitoba's most stable rental markets – 6.9% vacancy (2015)

  — In the Northern region, many residents rely on assisted rental housing and there is limited private sector involvement. For example, in Churchill, MHRC provides over 64% of housing in the community.

[1] *Canada Mortgage and Housing Corporation, Definitions of Variables*

3.2 Current State

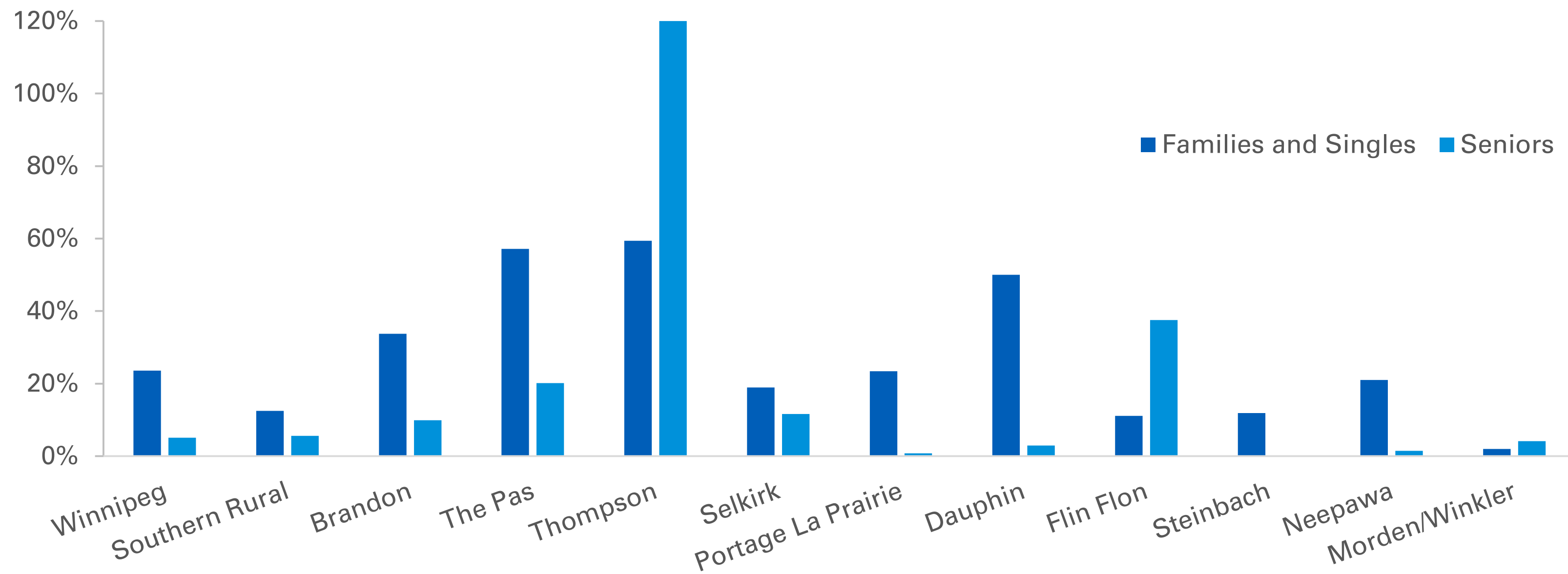
MHRC Analysis (continued)

Demand – Growing demand

In our interviews and data received, we are not aware of a consolidated needs analysis for the province. Since 2010, approximately 61 needs analyses have been done of various communities and neighborhoods in Manitoba.

Based on data provided by MHRC, we summarized the waiting list by selected communities. The below communities consist of approximately 25,000 in use units (approximately 81% of total units supported by MHRC excluding personal care home beds). In aggregate at May 31, 2016, there are 2,050 families, 689 seniors, 966 single-non elderly and special needs clients on the waiting list. The largest waiting list is Winnipeg with 2,513 on the list. Other areas with large waitlists include the southern rural area at 394, Brandon at 296, The Pas at 173 and Thompson at 113. The below chart shows the percentage of those on the wait list compared to the total number of units in use. The highest is Thompson at 65%, followed by The Pas at 45%, Brandon at 24%, Flin Flon at 18%, Selkirk at 16% and Winnipeg at 15%.

Waiting List Compared to Existing Stock by Community, May 31, 2016



Source: Derived from information provided by MHRC.

Analysis

3.2 Current State

MHRC Analysis (continued)

Fiscal Sustainability – Declining sources of Federal funding

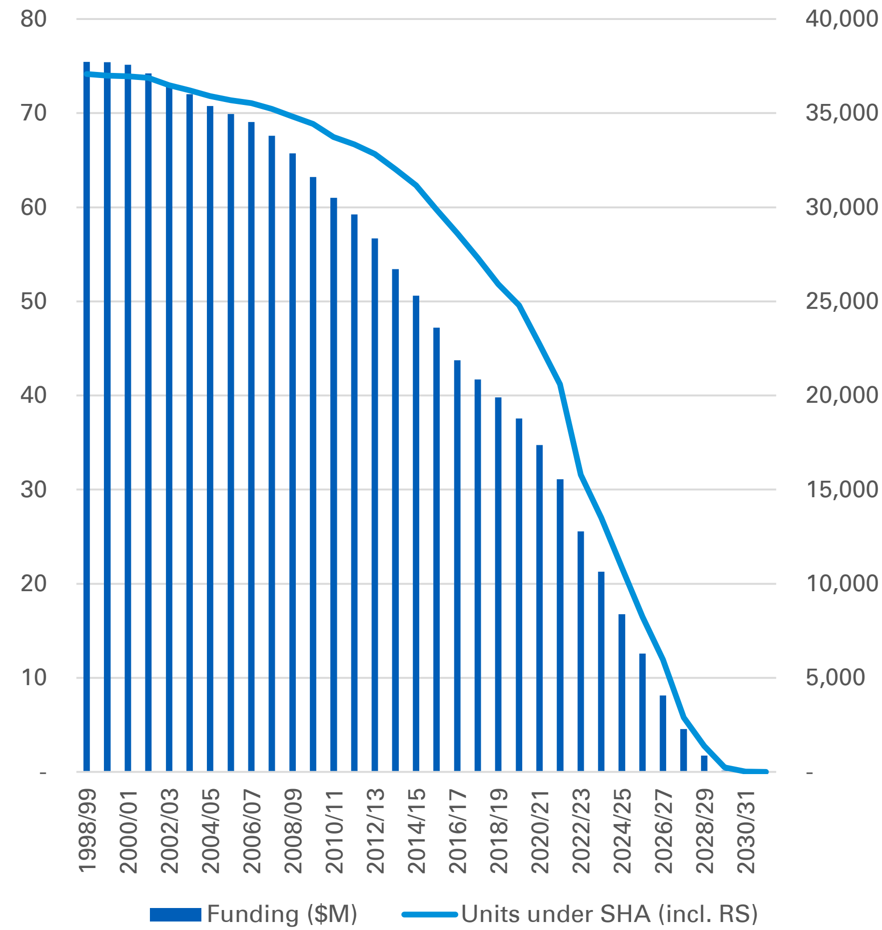
— Over the past 4 years, federal funding has decreased 2.8%. Funding received from the Federal Government can be broken down as follows:

— Social Housing Agreement (SHA) Funding – This agreement provides block funding from the Federal Government to subsidize federal mortgage and eligible operating costs of certain units owned by MHRC. Each project has its own separate operating agreement. Based on our interviews with MHRC, we understand most agreements provide funding at 75% of the mortgage and eligible operating costs and MHRC is responsible for the remaining 25% (some agreements we understand are shared 50%/50%). As the mortgages mature, the operating agreements terminate as well.

— Based on our interviews with MHRC, we understand that the 25% match of the costs was to represent the costs of operating the properties once the operating agreements terminated. However, according to MHRC, with the inflation in operating costs, and the required modernization and improvement (M&I) capital costs on these units, the actual cost is higher.

— By 2022, based on MHRC data, 50% of the original annual funding under this agreement will have terminated and by 2032 all funding under the SHA will have terminated representing a loss of $43.8M from 2016/17 funding amounts.

Declining SHA Funding, 1999-2032 ($ millions)



Source: Derived from information provided by MHRC.

3.2 Current State

MHRC Analysis (continued)

Fiscal Sustainability – Declining sources of Federal funding

- Note that the decline in SHA funding is also applicable to units operated by non-profit and cooperative housing providers. Therefore, as the SHA operating agreements expire on these units, they will face many of the same challenges that Manitoba will face with its owned units. If community providers cannot be viable, this will likely require assistance from Manitoba or another funding source.
- Investment in Affordable Housing (IAH) – Under this agreement, Manitoba receives $10.4M annually in cost matched federal funding for new affordable housing supply, renovation and shelter enhancement programming. This agreement ends in 2019.
- Social Infrastructure Fund (SIF) – Manitoba has entered into the SIF agreement with the Federal Government for 2016/17 and 2017/18. Under the agreement, Manitoba will receive time-limited funding over a two year period of $67.7M.
- SIF Part A – The Part A allocation is $21.7M which is required to be cost matched by Manitoba – funding can be used for programs consistent under the IAH; new rental supply, repair and renovation, homeownership and rent supplement.
  - Manitoba will satisfy its matching component using Loan Act Authority (LAA).
  - MHRC estimates the funds received to support homeownership and new rental supply programs will result in savings of approximately $5.1M in 2016/17 which would have had to come from HDRF dollars. MHRC estimates a further $3.2M will be savings over the two year period relating to the rent supplement program.
- SIF Part B – The Part B allocation is $45.9M which can be used to address capital needs of existing social housing ($33M) construction or renovation of affordable seniors housing ($8.7M) and construction or renovation of shelters or transition housing serving victims of family violence ($4.2M).
  - Of the $33M for capital needs, $15M will be spent on MHRC owned stock which reduces LAA financing and the remaining $18M will go to non-profit housing targeted to those projects for which SHA funding is nearing expiry. MHRC will assist approximately 100 projects (3,500 units) that have operating agreements expiring by 2020. Successful NPOs selected will be required to enter into new operating agreements in order to maintain the inventory of affordable units per MHRC.
  - Of the $8.7M related to seniors housing, $3.0M will go towards new rental supply (but no future operating subsidy), $3.3M to non-profit housing stock, $1M to MHRC stock which will reduce LAA financing and $1.3M toward renovation and repair.
  - The $4.2M for victims of family violence will reduce LAA financing for capital repairs to MHRC owned crisis shelters.
- Therefore, although there are anticipated savings in the near term, and a reduction of LAA financing that would save on debt service costs, the funding does not have a material impact on the cost curve in the long term.

3.2 Current State

MHRC Analysis (continued)

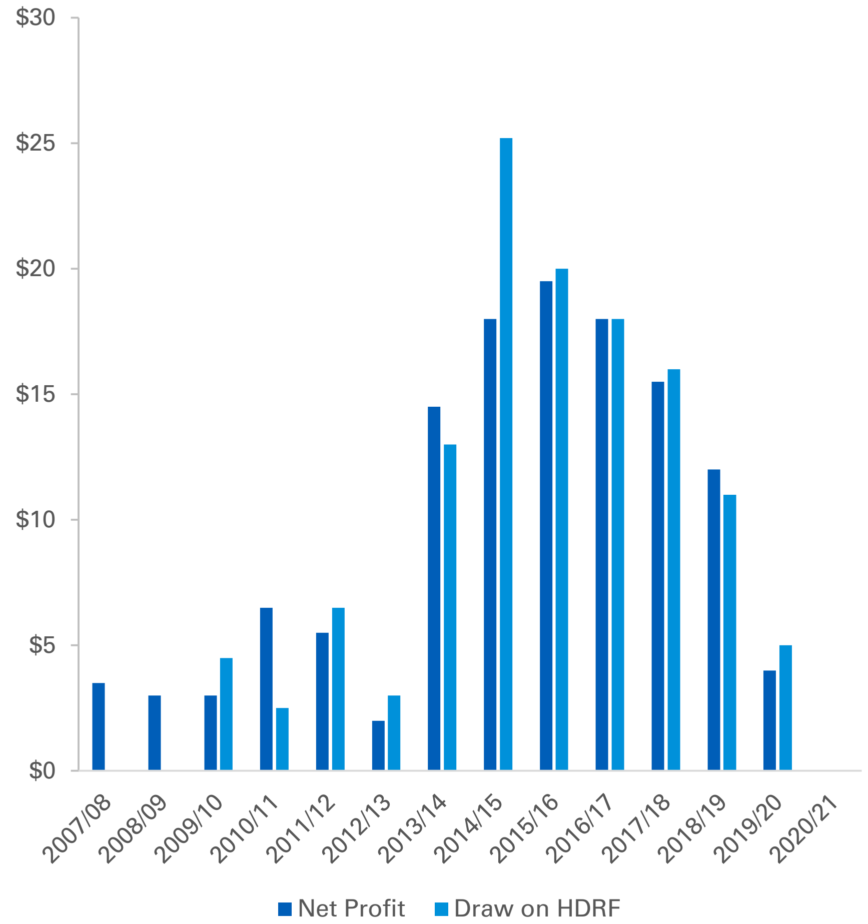
Fiscal Sustainability – Declining sources of HDRF and other one time sources of funding.

— Per the MHRC 2016/17 strategic plan: "For the past several years, MHRC has relied on one time funding sources generated from the sale of raw land holdings, use of deferred contributions (savings) and other cash reserves to help lower the transfer payment requirement. At year end 2015/16, MHRC had used up many of its one-time funding sources."

— Any profits realized by MHRC in respect of land owned and developed by it or by a partnership or joint venture in which MHRC is a participant are credited to the HDRF. Over the past 5 years, MHRC has recognized $66M in profits and utilized $74M to fund housing operations. At March 31, 2016, the fund has $734K remaining which provides further evidence of the fact that these profits have been almost fully utilized.

— MHRC does still hold land for development in Waverly West area in Winnipeg. MHRC is forecasting approximately $70M more in profit on this land and has forecasted the use of these profits in the year earned to meet its operating requirements. Under the current strategic plan, the profit is expected to be realized over a 4 year period to 2019/20, however, in our interviews with MHRC this may be extended due to market conditions. Therefore, any delay or lower profit would increase the transfer payment required from the Province.

Net Profit from Land Development and Draw on HDRF , 2007/08 to 2020/21 ($ millions)



Source: Derived from information provided by MHRC.

3.2 Current State

MHRC Analysis (continued)

Fiscal Sustainability – Escalating costs and stagnant revenue

The table below indicates housing operations revenue and expenses for MHRC owned units (approximately 14,000 directly managed and approximately 4,000 sponsor-managed). The increase in expenses is due mostly to increase in amortization and interest costs.

	2012	2013	2014	2015	2016	5 year change
Revenue	74,179,002	73,126,445	72,648,883	77,721,640	79,694,089	5,515,087
% change		-1.4%	-0.7%	7.0%	2.5%	7.4%
Expenses						
Administrative	34,042,310	37,557,771	41,858,521	41,974,168	42,770,326	8,728,016
% change		10.3%	11.5%	0.3%	1.9%	25.6%
Property operating	84,197,278	66,433,891	71,214,297	70,990,674	69,691,200	(14,506,078)
% change		-21.1%	7.2%	-0.3%	-1.8%	-17.2%
Grants in lieu of taxes	13,678,768	15,603,544	16,000,752	16,880,464	17,005,402	3,326,634
% change		14.1%	2.5%	5.5%	0.7%	24.3%
Amortization	11,711,671	14,762,644	20,832,090	27,007,136	35,826,507	24,114,836
% change		26.1%	41.1%	29.6%	32.7%	205.9%
Interest	20,805,657	21,680,701	25,193,285	27,776,303	31,059,789	10,254,132
% change		4.2%	16.2%	10.3%	11.8%	49.3%
Total Expenses	164,435,684	156,038,551	175,098,945	184,628,745	196,353,224	31,917,540
% change		-5.1%	12.2%	5.4%	6.4%	19.4%
Operating loss	**(90,256,682)**	**(82,912,106)**	**(102,450,062)**	**(106,907,105)**	**(116,659,135)**	**(26,402,453)**
% change		-8.1%	23.6%	4.4%	9.1%	29.3%

Source: Derived from information provided by Manitoba.

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3.2 Current State

MHRC Analysis (continued)

Fiscal Sustainability – Stagnant revenue

- Rental revenue has increased 7.4% over the past 5 years (growth in the number of units has been approximately 1.7%). MHRC estimates that rental increases will be 0.75% in future years which is lower than the increase in operating costs.
- Rental revenue earned by MHRC comes from its owned properties (both directly managed and sponsor managed) and primarily comes from two sources:
  - Those living in units that are on EIA and therefore pay the EIA shelter rate – Based on our interviews with MHRC, we understand the percentage of those paying the EIA shelter rate has been increasing and currently 54% of those living in directly managed units are on EIA and therefore MHRC receives the EIA shelter rate. The EIA shelter rate has been unchanged since 1992 per MHRC.
  - Those living in units that pay on an RGI scale – These households pay rent based on a percentage of their income. For those living in a studio apartment, they pay 25% of their gross income and for those living in one or more bedrooms they pay 27% of their gross income. Note that certain deductions from gross income are permitted before the percentage is applied (i.e., child tax benefit, income tax refund, monies received from insurance settlements, income of children or dependents if such children or dependents are attending school full time, etc.). The impact of these deductions is that the typical household will pay less than 25% or 27% of their gross income and this could be significantly lower depending on the applicable deductions.
- Per MHRC, and consistent with our review, other jurisdictions in Canada set RGI usually at 30% of gross income (subject to certain deductions depending on the jurisdiction).
- Note that the difference between the EIA shelter rate and the RGI rate represents an inequity between the two rates. Per MHRC, the average rent paid by an RGI tenant is currently $501 per month compared to $340 per month for the EIA shelter rate.
- It is important to note that from a financial perspective, if the EIA shelter rate was increased, this would represent $12.7M in additional revenue to MHRC. Absent any other changes, this would increase Manitoba's spend on EIA by the equivalent $12.7M and therefore this would have no net impact on Manitoba overall.

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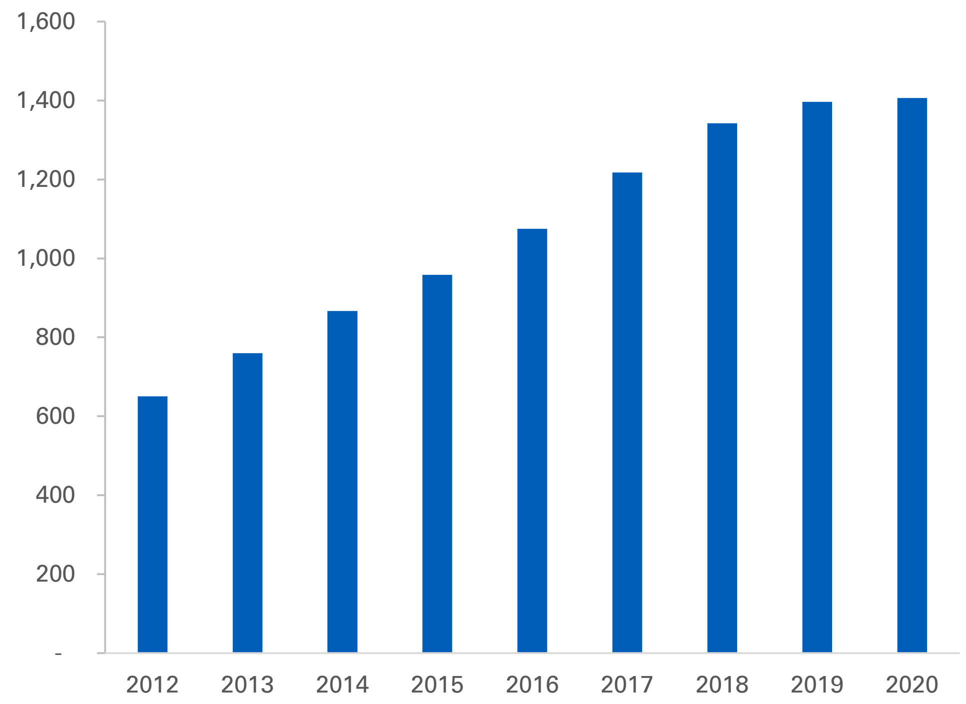
3.2 Current State

MHRC Analysis (continued)

Fiscal Sustainability – Escalating housing operations costs

- Since 2012, long-term debt has increased 65.2% or $424M. MHRC has forecasted debt to grow a further $331M or 30.9% over the next 4 years to approximately $1.4B.
- At March 31, 2016, approximately 90.2% or $970.2M of MHRC's debt is owed to Manitoba and therefore is Provincial debt as well. The remaining debt is primarily owed to CMHC which relates to projects under the SHA.
- Interest costs on housing operations debt have increased 49% since 2012 or $10.3M. In 2016/17, MHRC forecasts debt service costs on new debt at $49.5M ($82M in aggregate) which will increase to $75M by 2018/19 ($105M in aggregate). By 2019/20, MHRC forecasts total debt service costs at $113.3M.
- The increase in long-term debt is due to capital spending discussed previously.

MHRC Debt from 2012 to 2020F ($ millions)



Source: Derived from information provided by MHRC.

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3.2 Current State

MHRC Analysis (continued)

Fiscal Sustainability – Escalating housing operations costs

- The total operating loss on the 18,213 MHRC owned units for 2015/16 was $116.7M (revenues of $79.7M less operating costs of $196.4M). Debt service costs were discussed on the previous page.
- Amortization has increased 205.9% or $24.1M which is due to the significant increase in capital spending in recent years discussed previously.
- Administrative costs have increased 25.6% or $8.7M. Total administrative costs are $42.8M in 2015/16 of which $38.7M relates to the MHRC owned and operated units (approximately $2,724 per unit) and $4.1M related to MHRC owned and sponsor operated units (approximately $1,022 per unit). KPMG considered administrative costs further:
  - For purposes of analysis, KPMG calculated an estimated market rental value on MHRC units – per MHRC, average rent for a 2 bedroom apartment in Manitoba is $1,012 per month (2015 data). If this is multiplied by the approximately 14,200 units owned and operated by MHRC this would be revenue of approximately $172M.
  - Therefore, the $38.7M in administrative costs represents a rate of approximately 22.5%.
  - In commercial and residential buildings, a market property management fee is generally in the 3%-5% of gross revenue range.
  - Therefore, a market management fee even at the high end of the range at 5% is $8.6M.
  - Further, for asset management fees, they can take different forms but something in the range of 0.3% of gross assets (at fair value) is not unreasonable. Per MHRC, the replacement value of their owned portfolio is roughly $3.2B. If 0.3% is applied to this would result in an asset management fee of $9.6M.
  - The above analysis is only a proxy and does not assess the differences between operating a standard commercial or residential building as compared to the MHRC units. However, directionally it appears that the administrative costs to operate the MHRC owned units is high.
  - Further analysis would have to be done and consideration should be given to alternative delivery opportunities in the areas of property management, asset management, food services, security, etc. Refer to later in this report for further consideration of options.

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3.2 Current State

MHRC Analysis (continued)

Fiscal Sustainability – Escalating housing operations costs

— MHRC provided an analysis comparing the subsidy level of different project types – those projects for which 100% of tenants pay on the RGI scale, those units/projects on rent supplement, those projects with mixed income (mix of RGI units and other units) and affordable projects.

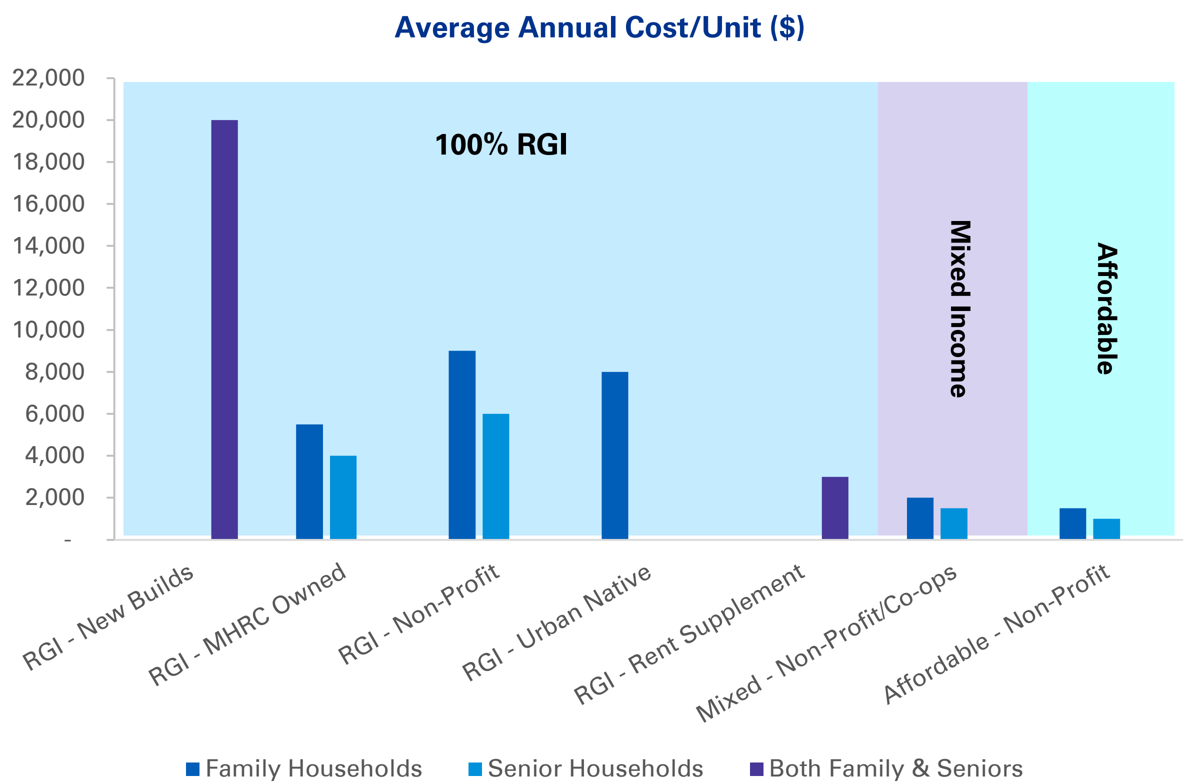
— Subsidies cost more in 100% RGI projects than other projects that have a mix of higher and lower rents.

— Subsidies for families costs more than for seniors/singles.

— Subsidy costs for new builds are very expensive and more expensive than continuing subsidies on older units.

— Per MHRC, 94% of 100% RGI projects have an operating loss, which compared to 40% for affordable projects (32% are break-even and 28% have high surplus) and 25% for mixed income units (49% are break even and 25% have high surplus).

  — Therefore, in order for projects to be financially viable they need a mix of higher and lower rents.



Source: Derived from information provided by MHRC.

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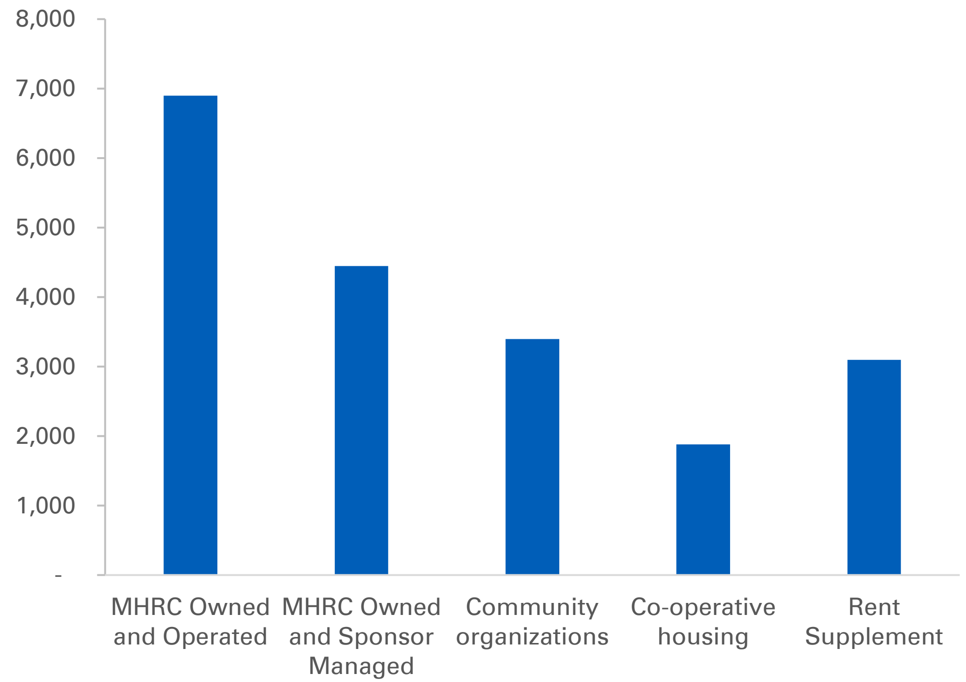
3.2 Current State

MHRC Analysis (continued)

Fiscal Sustainability – Escalating housing operations costs

- KPMG also performed an analysis comparing the average operating loss per unit in MHRC owned units compared to the subsidy paid on units owned by the community and private landlords based on 2015/16 actual expenditures.
- The chart on the right is directionally consistent with the chart on the previous page. MHRC units have a higher operating loss as compared to the subsidy paid on subsidized units which is due to a number of factors most significantly that MHRC owned and operated units consist of tenants paying on an RGI basis or are on EIA as well as the amortization and interest costs. In MHRC owned and operated units, amortization and interest amounts to approximately $3,600 per unit and in MHRC owned and sponsor managed units it amounts to approximately $4,000 per unit.

Average per Unit Operating Loss or Subsidy, 2015/16 ($)



Source: Derived from information provided by MHRC.

3.2 Current State

MHRC and Rent Assist

For comparative purposes, KPMG considered the MHRC operating loss and subsidy amounts in comparison to the costs of non-EIA Rent Assist (Rent Assist is discussed more fully on pages 14-16 of this report). As shown on page 8, both MHRC and Rent Assist costs are increasing at a significant rate with non-EIA Rent Assist growing at a faster rate than EIA Rent Assist costs and MHRC transfer payments. The reasons for the significant increase in Rent Assist should be further investigated by Families.

In 2015/16, the non-EIA Rent Assist payments were $13.1M and the average number of monthly recipients was 3,906 which results in an annualized cost per recipient of approximately $3,351. In 2016/17, based on information derived from Families, the average monthly recipients were expected to be 4,500 and estimated cost of $21.2M which results in an annualized cost per recipient of approximately $4,702. As noted in 2017/18 Preliminary Estimates, the average monthly recipients has increased to 5,400 with most of the growth coming from families.

If each non-EIA Rent Assist recipient is considered a unit, as that term is used in MHRC, then the cost or subsidy per unit for non-EIA Rent Assist is higher than the cost or subsidy amount in the following MHRC units: rent supplement units, cooperative housing units, housing units provided by community organizations and units that are owned by MHRC and sponsor managed.

Given the differences between programs (i.e., income limits, subsidy method, eligibility criteria, etc.) further analysis is required. For example, consider a family of 3 or 4 that requires 2 bedroom accommodation in Winnipeg. For non-EIA Rent Assist, the maximum income permitted under the program would be $36,384. The maximum income for social housing (and rent supplement) for 2017 in Winnipeg is $47,500. The subsidy amounts for certain programs are discussed on page 18.

However, for further consideration of the differences in programs, refer to the following pages for an illustrative example of two MHRC programs and non-EIA Rent Assist.

3.2 Current State

MHRC and Rent Assist

Non-EIA Rent Assist

- Using the online calculator provided by Manitoba for non-EIA Rent Assist, we deduced the current MMR. We noted that for a family of 4 with 2 children and zero income, the monthly benefit would be $758 per month or $9,096 per year. As the non-EIA Rent Assist subsidizes the difference between 25% of household income and 75% of MMR, this implies an MMR of $12,128 ($9,906 / 75%).
- The average annual subsidy per recipient noted on the previous page is $4,702 (estimated 4,500 recipients and an estimated $21.2 million in spend). For this illustration we have assumed that the average recipient is a family of 4 described above.
- This implies an average income of $17,576 per recipient. This was derived by taking 75% of MMR and deducting the average annual cost per recipient and then dividing by 25%. $9,096 is 75% of MMR less average annual subsidy of $4,702 = $4,394. $4,394 would effectively be the first 25% of household income that the recipient would pay. $4,394 / 25% = $17,576.
- If the average recipient is renting a unit at the MMR of approximately $12,128 annually (or approximately $1,011 per month), then the recipient would need to pay an additional $3,032 towards their rent in addition to the $4,394 already paid. $4,394 is the first 25% of revenue paid, $4,702 would be the average subsidy and $3,302 would be the additional payment required to arrive at total MMR of $12,128.

Rent Supplement – Within MHRC – utilized for analysis purposes as tenant will rent from a private landlord which is more comparable to a tenant on non-EIA Rent Assist.

- As noted earlier in this report, based on information provided by MHRC, the total number of rent supplement units is 3,045 at March 31, 2016. Per the 2015/2016 audited financial statements of MHRC, the total subsidy paid to private landlords (rent supplement) was $9,450,326. This is an average annual subsidy per rent supplement unit of $3,103.
- In a rent supplement unit, MHRC subsidizes the differences between what the tenant pays per the RGI scale and the market rent on the unit. Assuming that the average rent supplement unit has the same family of 4 noted above, the market rent is equivalent to the derived MMR above of $12,128 and RGI of 27% of household income, this implies that the average recipient is paying $9,025 towards their rent ($12,128 – $3,103).
- Therefore, the average household income derived from this analysis is $33,425 ($9,025 in rent paid divided by 27% RGI percentage.

3.2 Current State

MHRC and Rent Assist

For illustrative purposes, we considered if the average non-EIA Rent Assist recipient from our example and the recipient receiving the average rent supplement were in the opposite program.

— Using the online calculator provided by Manitoba for non-EIA Rent Assist, we noted that for the same family of 4 with income of $33,425 (the income amount for the assumed average rent supplement recipient), the non-EIA Rent Assist payment would be $82 per month or $980 annually. This family would then pay a total of $11,148 towards their rent (MMR of $12,128 less Rent Assist payment of $980). This would be approximately 33% of household income. This would be equivalent to 6% of household income more paid for rent.

— Alternatively, if the non-EIA Rent Assist family from the previous page was in a rent supplement unit, they would pay a total of 27% of their household income towards rent, or $4,745 (the derived average income of $17,576 from the previous page multiplied by the 27% RGI percentage). This would be equivalent to 15% less of household income paid for rent. The subsidy paid for the rent supplement unit would be $7,383 (the difference between MMR of $12,128 and the $4,745 paid by the tenant.)

— Using the subsidies/payments from the previous page, the total subsidy/payments are $7,805 ($4,702 average for non-EIA Rent Assist and $3,103 for average rent supplement).

— Using the above illustrative examples if the two assumed families were part of the other program is $8,363 ($980 for non-EIA Rent Assist and $7,383 for the rent supplement unit).

Affordable Housing Program – within MHRC

— Per the Manitoba Housing website, the upper income limit for affordable housing is currently $71,255. For the social housing program, the income limit would be $47,500 for a family of 4 requiring 3 bedrooms.

— Per the “2017 Affordable Housing Rental Program Rents” on the Manitoba Housing website, assuming the same family 4 described above requiring 3 bedrooms would pay a fixed rent amount in Winnipeg of $1,039 per month (utilities not included) or $12,468 annually. This is equivalent to 17.5% of the income limit of $71,255 and equivalent to 26.2% of $47,500 (the amount which if household income is higher would not be eligible for social housing but eligible for affordable housing).

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3.2 Current State

Summary Comments

As noted previously, the analysis on MHRC and Rent Assist was done at a high level. Further analysis would be required to distinguish between different categories and income levels.

However, the analysis on the previous pages illustrates there is not consistency in how housing programs and the related subsidies or payments are delivered.

As discussed in the next section, Manitoba should consider merging Rent Assist and the MHRC programs into a single service window. Among other things, this should allow for greater consistency in how housing assistance is provided. It will also allow for better assessment of the needs of vulnerable Manitobans and which housing assistance may provide the appropriate benefit for them and at the appropriate level of subsidy.

The sharp increase in Rent Assist and MHRC cost will require consideration of policy changes. We note that other western Canadian provinces and Ontario cities (where social housing has been devolved to municipalities and regions) set their rent geared to income (RGI) levels at 30%, while Manitoba is 25-27%. Limited resources should be focused on those most in need, thus, other policy decisions such as holds on indexing, income thresholds, and limiting eligibility, should be considered.

The assessment of the Current State demonstrates that the existing system of policies and housing programs and services that guide the provision of housing to vulnerable Manitobans is not sustainable. As long as Government continues to retain the existing stock of social housing, operating, amortization and interest costs will continue to increase, and the housing needs of vulnerable Manitobans will not be fully met. Traditional revenue sources have been depleted and no longer provide a means of funding necessary costs.

The escalating costs and stagnant revenue analysis illustrates that the status quo is not sustainable. Policy changes should be considered to increase revenue and a significant change in the provision of social housing is required to address escalating costs.

More fundamental transformations are needed to contain escalating costs and to ultimately bend the cost curve and achieve better outcomes for vulnerable Manitobans. Many of the pressures that are faced by Manitoba in this space are not unique. Other jurisdictions face similar challenges, and all Canadian provinces face similar pressures. In the next section, we outline transformation options for the Province to consider based on leading practices, trends and approaches from other jurisdictions.

3.3 Options at a High Level

This Section of the business case presents a suggested *Transformation Framework* for Manitoba's consideration, comprised of:

- A Future State Vision;
- Key roles and responsibilities for the Future State (some of which will vary depending on the transformative option selected by Manitoba to achieve the Future State Vision); and
- Three long-term transformation options to consider to move towards the Future State Vision.
  1. Properties are 100% owned by the market; tenants receive a voucher and have choices on which property to rent to best suit their needs.
  2. Transfer significant housing stock to private and/or community-based providers (based on overall value).
  3. Mixed provision model – some tenants receive a voucher and some tenants are allocated to a social house provided under contract between government and the private sector and/or community-based provider.

In addition, KPMG outlines two potential new tools for Manitoba to consider using, to help support the transformation journey:

1. Social Impact Bonds
2. Federal Infrastructure Bank Funds

Longer-term transformation will take considerable time to prepare for and implement; in recognition of this, KPMG also suggests a number of *shorter-term* options for Manitoba to consider to help contain escalating costs. A combination of these options can be a component on the path to long-term transformation.

4.1 Assessment of Options

Long-term Transformation – Suggested Future State Vision

- People in need receive housing support at the time of their need and for the duration of their need.
- People in need are housed in healthy homes that are of appropriate scale, scope and location for their household.
- People receiving support have a pathway to housing independence and self-sufficiency over the medium to long-term (where practical).
- Innovation in service delivery is incentivised and social services are integrated to provide a package of services that will be most effective at delivering the desired social outcomes for vulnerable Manitobans.
- Equity in support provided to people, through the use of defined service standards and common tools.
- A fiscally sustainable system where expenditure is predictable and the full cost of provision is funded (drawing on tenant rent and funding from federal government, provincial government and philanthropic sources).
- An efficient system with efficient players that have a culture of continuous improvement and operational efficiency and where a whole-of-life approach is taken to assets.
- A dynamic system that can forecast future need and adjust investment in properties and changes in funding as required.

Key Roles and Responsibilities in the Future State

Roles and responsibilities for the Future State need to be clearly defined in terms of:

- The System: Definition of cohort of tenant, service levels, regulation, funding mechanisms, funding sources.
- The Tenants: Who serves the tenants and how the tenants interact with the landlords/providers.
- The Properties: Who owns the properties, maintains the properties and makes investment/divestment decisions.

Roles and responsibilities should be allocated to the parties that have the best information, expertise and resources to undertake them – government or the private and community-based sector.

4.1 Assessment of Options

Key Roles and Responsibilities for the Future State

	System	Tenants	Properties
Suggested Responsibilities in Future State	**Policy settings (e.g., target social outcomes, defined levels of service)** Department of Families **Design of funding mechanisms** Department of Families **Provision of funding** Department of Families **Monitoring / auditing delivery** Department of Families **Step-in provider where poor performance and/or landlord of last resort** Department of Families	**Needs assessment** Department of Families **Long term social outcomes for vulnerable Manitobans** Department of Families	
Unconfirmed Responsibilities in Future State (may be a mix for each)	**Supplementary funding** Federal government, philanthropic organizations, other funding sources **Forecasting future need / demand** Department of Families, private and/or community-based sector	**Tenancy management** Department of Families, private and/or community-based sector **Supporting tenants into independent housing** Department of Families, other government agencies or programs private and/or community-based sector	**Property ownership (land and buildings)** Department of Families, private and/or community-based sector **Investment / divestment of properties** Department of Families, private and/or community-based sector **Programmed maintenance** Department of Families, private and/or community-based sector **Rehabilitation maintenance (capex)** Department of Families, private and/or community-based sector

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4.1 Assessment of Options

Longer-Term Transformation Options

Option #A	Description

Properties are 100% owned by the market, tenants receive a voucher and have choice on which property to rent	<u>Description</u>
	— Properties are 100% owned in the market (either private or community-based sector) and tenants have choice on which property to rent.
	— Tenant receives a voucher (subsidy worth $X) towards the cost of market rent, based on the government's needs assessment process.
	
	<u>Rationale</u>
	— Market landlords are experienced at managing property portfolios and maintaining properties.
	— Government can manage reasonably stable operating expenditure of cash subsidies, rather than more variable and considerable capital expenditures for properties and rehabilitation.
	— People in need of support can choose the housing that meets their needs, for the duration of their needs.
	
	<u>Key Considerations</u>
	— When government-owned properties are sold, consider existing tenants in social and affordable housing to protect the most vulnerable.
	— Tenants receive generic tenancy management equivalent to any private renter.
	— May be more difficult to integrate social services.
	  — Manitoba could provide navigation services to support vulnerable tenants to find an appropriate house and negotiate with landlords at beginning of tenancy, tenancy renewals and any tenancy disputes.
	  — Additional social services could be provided to support a tenant towards housing independence.
	— Harder to regulate quality of house and quality of tenancy management. Properties may not match specialized needs of some vulnerable Manitobans.
	— Tenants learn skills needed for when they are no longer requiring assistance (e.g., paying rent, how to interact with private landlords).
	— Requires (independent, objective) consultation with market in advance of decisions, to better understand capacity and implications.
	— Integrating the social housing market and the private rental market could impact rental market, i.e. rent increases, insufficient stock that is affordable for those requiring support.

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4.1 Assessment of Options

Longer-Term Transformation Options

Option #A	Description

Properties are 100% owned by the market, tenants receive a voucher and have choice on which property to rent	Key Considerations (continued)
	— Would likely still require a landlord of last resort where there is market failure and/or step-in abilities in cases of poor market.
	— Determine how net proceeds on sales will be utilized (e.g., one option is to establish a separate fund for asset disposal, with partial/full proceeds re-invested into desired social housing outcomes).
	
	Transition from Current State
	— Government-owned properties would be sold to private or community-based landlords.
	— Depending on the asset and/or community, may require consideration of incentives for sale of assets.
	— Consider lessons learned from other jurisdictions (e.g., New Zealand) and develop mitigating strategies.
	— Requires a plan to support existing tenants, particularly most vulnerable tenants.
	
	Other Jurisdictions
	— New Zealand
	    — Moved towards a fully rent-subsidized system in the 1990s and started selling off its social housing portfolio. There was criticism that vulnerable tenants were not adequately supported and also some evidence that market rents increased in areas with a high proportion of social housing (leading to private renters facing higher rents and the government's operating expenditure increasing).
	    — New Zealand has since moved away from a fully rent subsidized system (refer to Options #2 and #3).
	— No jurisdiction we have reviewed has fully implemented a transformation consistent with this option.
	
	We do not consider Option A to be a viable or practical option for Manitoba.

4.1 Assessment of Options

Longer-Term Transformation Options

Option #B	Description
Transfer significant housing stock to private and/or community-based providers	Description — Transfer significant housing stock to private and community-based providers. — Government funds private and community-based providers to supply housing to tenants through contracts. — Tenants pay a portion of the rent and government covers the remaining cost of provision. Rationale — Housing providers are experienced at managing property portfolios and maintaining properties. Consortiums can form between private and community-based providers, between property developers, asset managers and property managers and tenancy management. — Encourages market integration, collaboration and innovation among those best suited to deliver and manage housing to better meet client needs. — Government can regulate service quality. — Reasonable confidence that every tenant will be housed, and that flexibility can be built into contracts to accommodate future needs. — Reduces need for capital expenditures and related amortization and interest costs; however, need to consider new subsidy costs. — Government takes lead for capacity-building in the community-based sector; capacity-building encouraged through collaboration with experienced market service providers. Key Considerations — Tailored services can be provided to tenants by having a diversified market, e.g., a provider may specialize in housing for the elderly. — Model encourages transition to a market of high-performers, and options to manage poor performers. — Removes current interest cost and amortization cost pressures. However, need to consider new costs. — Subsidy can be provided either in the form of capital (discounted transfer price or ongoing operating subsidy or a combination of both). — Government likely will need to share the vacancy risk to ensure sufficient properties are available to tenants when need arises. — The length of contract, service levels and control the providers are given over property (i.e., full title transfer of property, lease, or management agreement) and tenancy decisions, will determine the incentives on the providers and the price of the contract.

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4.1 Assessment of Options

Longer-Term Transformation Options

Option #B	Description
Transfer significant housing stock to private and/or community-based providers	Key Considerations (continued) — The scope of the contracts could include additional social services to support a tenant towards housing independence. — Requires (independent, objective) consultation with market in advance of decisions, to better understand capacity and implications. — Would likely still require a landlord of last resort if there is market failure. — Transferring assets to providers will require sophisticated procurement and contract management and negotiating skills. Should be distinct from policy function but within same department/program. — Depending on degree of contract performance criteria (e.g., tenancy services), more criteria will result in more complex contracts (and take more time). — This option encourages partnerships; those that are not strong providers will likely exit the market (voluntarily or forced exit). — Determine how net proceeds on sales will be utilized (e.g., one option is to establish a separate fund for asset disposal, with proceeds re-invested into desired social housing outcomes). Transition from Current State — Develop a comprehensive, long-term policy framework and contracting strategy that includes risk allocation, commercial structure, payment mechanism and conditions for stock transfer (what stock, to who, by what means, when) to the private sector and community-based providers. — Conduct (independent and objective) market sounding to help inform the plan and structure for specific approaches for assets in specific communities. (The purpose of the market sounding is to provide an early signal of Government’s intentions, and seek feedback and input on perceived challenges, innovative solutions and key commercial terms.) — Develop alternative procurement processes, documentation and draft contracts to enable the transfer of assets. — Further market sounding can be utilized to drill down and test key aspects of specific transactions, and ensure sufficient competition prior to proceeding to market.

4.1 Assessment of Options

Longer-Term Transformation Options

Option #B	Description
Transfer significant housing stock to private and/or community-based providers	Other Jurisdictions — New Zealand — Moving (away from fully rent subsidized system) towards long-term contracts with consortiums. The transactions involve the transfer of government assets and a long-term, performance-based contract to make the property available to social housing tenants (maintain the property and provide tenancy management services). — Australia — Stock transfers have been underway for some time in some states to community housing providers (CHP), principally New South Wales. CHP's are not-for-profit organizations. Many states have enacted large scale stock transfers. Most (72% by 2012) of the transfers were management outsourcing transfers (CHP assumes management, ongoing R&M, property insurance, etc.). The remainder were title transfers where the CHP received legal title. Ongoing interest in the land is typically retained by government, preventing CHP's from selling properties. — The key barrier to CHP viability and sustainability is their limited revenue generating capacity, which is constrained by rent policy and tenant allocation policies set by authorities. CHP can overcome this, to some extent, by operating at scale. — Attributes of operationally viable CHP's include: operations at scale, assets under ownership and control, rent policies that maximize revenue, in-house property development and construction activities, other revenue generating activities (e.g., commercial arms, or cross-subsidizing from commercial activities) access to capital, (existing reserves or debt financing), effective commercial governance. — Commonwealth rent assistance is available for low-income households renting in private or community housing, but not public housing. — United Kingdom — Approximately one-third of all local government owned dwellings have been transferred to community housing associations (independent, not-for-profit organizations that can use any profit they make to maintain existing homes and help finance new ones) over the past 20 years. In approximately one-third of all local government areas, 100 percent of stock was transferred to a housing association.

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4.1 Assessment of Options

Longer-Term Transformation Options

Option #B	Description
Transfer significant housing stock to private and/or community-based providers	Comparison to Manitoba: — Although each international jurisdiction (and areas within each jurisdiction) will have their own unique local challenges, many of the matters discussed in section 3.2 Current State, are applicable to these jurisdictions: aging stock (and the required maintenance and capital expenditures), growing demand, affordability, challenging and growing needs of the most vulnerable, escalating costs and stagnant revenue. — Note that the Australian and New Zealand approaches are more recent and should be looked at as better comparatives for this option. These jurisdictions involve the private sector in consortiums, alliances or partnerships. — Analysis of these comparative jurisdictions, and their strengths and challenges, have partially informed the key considerations and transition steps outlined in this option. — One key consideration noted for this option is to encourage the transition to high performers while poor performers will exit the market either voluntarily or mandated. In the Current State Assessment, it was noted there are more than 300 community based organizations that currently own units supported by MHRC and that these conditions are similar for units owned by private landlords for which a rent supplement is paid. — One of the key learnings in both the Australian and New Zealand jurisdictions is that in order for providers to be viable and sustainable, they require economies of scale, access to capital and effective governance. — Further analysis would be required of these community and private organizations to determine who has these capabilities or are able to develop them which is part of the market sounding stage of this option. We note that as discussed further in the short and medium term measures that MHRC has already identified two not-for-profit organizations for which a small transfer could be done. — Another key consideration is that when these transfers are done and agreements entered into, this will require sophisticated procurement, contract management, negotiation skills, due diligence, risk transfer and performance accountability mechanisms. It will be important for Manitoba to understand reasonable benchmark expectations of service and costing which will allow for realistic pricing and subsidy structures to put social housing costs on a more sustainable economic footing, and for providers to ensure performance, accountability and responsibilities for investments, costs and risks.

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4.1 Assessment of Options

Longer-Term Transformation Options

Option #C	Description
Mixed provision model – some tenants receive a voucher and some tenants allocated to a social house provided under contract between government and private sector and/or community-based provider	<u>Description</u> — A hybrid of Option #1 and Option #2, where tenants requiring the least support receive a voucher towards renting from a private landlord and most vulnerable tenants are allocated to a social house which is provided under contract between government and a private provider. — The decision between the two options is made based on the needs of the tenant, the preferences of the tenant and the availability of contracted houses. <u>Rationale</u> — Lower risk transition because it allows different models to be piloted and the optimal mix between the two approaches to change over time. — Reasonable confidence that every tenant can be housed, and that flexibility can be built into contracts to accommodate future needs. — Allows for specialized houses and tenancy services for tenants with special needs (under the contracted approach). — Government can regulate service quality. — Reduces need for capital expenditures and related amortization and interest costs; however, need to consider new subsidy costs (to lesser extent than Option #2 due to the mix in approaches). <u>Key Considerations</u> — Government needs to administer two mechanisms – distributing the rent subsidy and managing the contracts. — Many of the key considerations applicable to Option #1 and #2 are applicable in Option #3. <u>Transition from Current State</u> — A decision is needed on the initial target mix between the two mechanisms. This requires a deeper understanding of supply and demand, by location. — Many of the transition matters applicable to Option #1 and #2 are applicable in Option #3.

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4.1 Assessment of Options

Longer-Term Transformation Options

Option #C	Description
Mixed provision model – some tenants receive a voucher and some tenants allocated to a social house provided under contract between government and private sector and/or community-based provider	Other Jurisdictions — Most jurisdictions operate under a hybrid model. — For example, while New Zealand is going through a process to transfer properties to social housing providers, and contract for services, it is retaining its Accommodation Supplement mechanism to allow some tenants to receive a rent subsidy rather than a house. — In Australia, where they have had a significant amount of asset transfers, they also have Commonwealth Rent Assistance for those renting from private or community providers. — Similarly, in the United Kingdom, where they have had significant amount of asset transfers to the community housing associations, they also have the Housing Benefit (transitioning to be a part of the Universal Credit). The Universal Credit is a welfare benefit that is being introduced in the United Kingdom (over a seven year period) to replace six means-tested benefits and tax credits: income based Jobseeker's Allowance, Housing Benefit, Working Tax Credit, Child Tax Credit, income based Employment and Support Allowance and Income Support. Source: www.gov.uk/universal-credit

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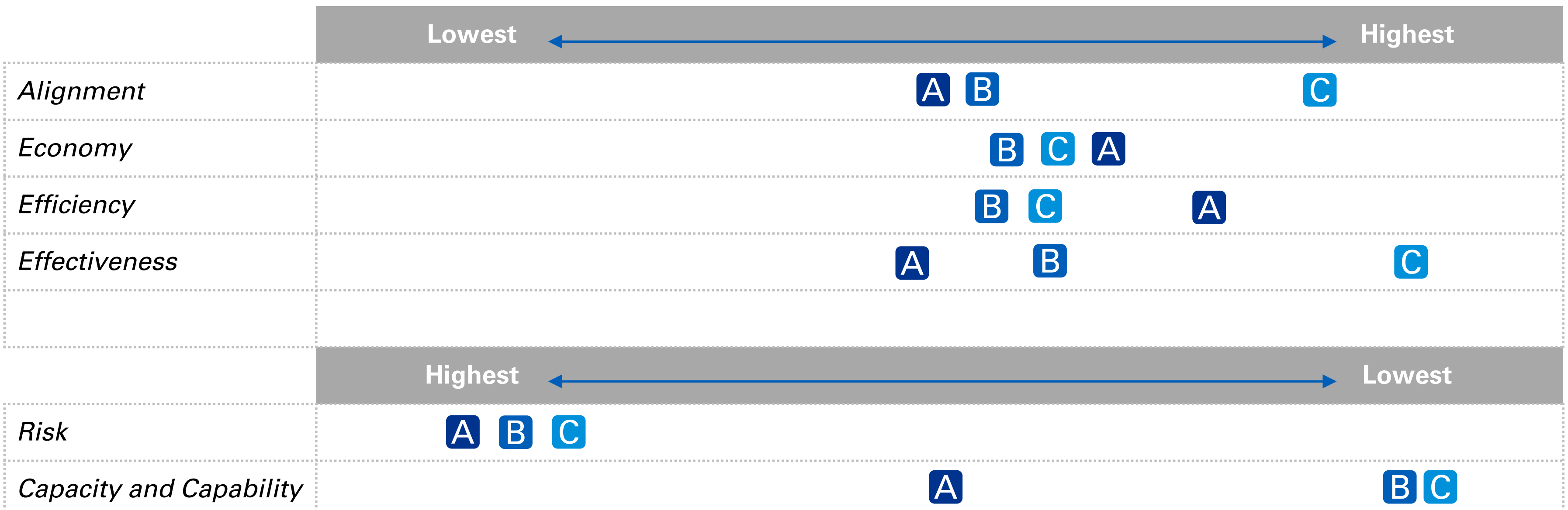
4.1 Assessment of Options

Longer-Term Transformation Options

Option	Option A	Option B	Option C
	Properties are 100% owned by the market, tenants receive a voucher and have choice on which property to rent	Transfer significant housing stock to private and/or community-based providers	Mixed provision model – some tenants receive a voucher and some tenants allocated to a social house provided under contract between government and private sector and/or community-based provider

Summary Assessment – Longer-Term Transformation Options



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4.1 Assessment of Options

Potential New Tools to Support the Transformation Journey

Option #1	Description
Social Impact Bonds	— Social Impact Bonds (SIBs) are a commercial structure aimed at improving the effectiveness of social services. SIBs transfer the risk of delivering a social outcome (e.g. sustained employment) to a consortium of non-government parties who are responsible for designing, delivering and financing social services that will achieve the pre-defined social outcome. The government measures the performance of the consortium and pays when the social outcome is achieved. The government's payment covers the consortium's upfront investment and interest costs. — SIBs have been used in countries such as the United Kingdom and Australia to encourage innovation into the delivery of human services (e.g., education, social services, justice-related services). — There is increasing interest in and use of SIBs, however the cautionary note is that it is still early days in terms of use, and so there is not a robust body of evidence that can speak definitively to long term successes and pitfalls. — As of July 2015, there are ~44 SIBs being utilized in developed countries. <u>Expected Results</u> — Low 'upfront' government investment required to deliver the program. Payment based on results may derive from estimated future cost avoidance. — Most SIBs have required governments to share some of the delivery risk and make milestone or baseline payments during the early years prior to the social outcome being achieved. — Fosters new business, social and community partnerships, drawing new expertise and innovation into social services and improving outcomes for vulnerable Manitobans. — Demonstrates strong alignment with Government's priorities and commitments.

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4.1 Assessment of Options

Potential New Tools to Support the Transformation Journey

Option #1 (continued)	Description
Social Impact Bonds	<u>Key Considerations</u> — As noted above, SIBs are in the early days and are complex, with high transaction costs. They require a good understanding of desired social outcomes and impact, linked to success over time. They also require good data sets to allow measurement of social outcomes and a good knowledge base amongst providers on "what works". — If Government is interested in moving forward, it may be beneficial to start first with a feasibility study to assess an appropriate target outcome for Manitoba based on data availability, cohort characteristics, provider capability and investor preferences. It could then proceed with a simple pilot project, and consider taking a matchmaking approach to identify and facilitate discussion with potential philanthropists and community partners. — The timeframe for implementing a pilot project could potentially be upwards of two years. <u>Suggested Immediate Next Steps</u> — Establish a core team of housing, legal, financial and other experts to lead efforts. — Assess priority needs and identify potential candidates for SIBs, based on feasibility criteria including: meaningful, measurable outcomes; reasonable timeline for achieving outcomes; historical evidence of success; relevant legal and political support. — Assess existing service providers with a view to identifying strategic partners for SIB candidates (this step would take place in parallel with the first step). — Identify potential private sector investors (e.g., well known philanthropists). — Draft a deal structure for each intervention and identify and discuss with key factors; determine viability of a deal. — Once the deal mechanics are known, seek final decision and implement. Contributing Source: The Potential and Limitations of Impact Bonds: Lessons From The First Five years Of Experience WorldWide (July 2015)

4.1 Assessment of Options

Potential New Tools to Support the Transformation Journey

Option #2	Description
Consider Federal Infrastructure Bank	— Intent is to leverage additional funds in support of the provision of social housing and the transfer of stock. — The Federal Government recently announced it is launching a new Canada Infrastructure Bank. The intent of the Bank is to provide innovative funding and financing for infrastructure projects and help more projects get built. — The federal government will invest at least $35 billion in large infrastructure projects that contribute to economic growth through loans, loan guarantees and equity investments. $15 billion is to be sourced from the announced funding for public transit, green infrastructure, social infrastructure, trade and transportation, and rural and northern communities. An additional $20 billion in capital will be available to the Canada Infrastructure Bank for investments which will result in the Bank holding assets—in the form of equity or debt. — Projects should be large-scale ($100M+) and include a revenue stream to attract private investment. Source: Government of Canada website: Fall Economic Statement 2016. Expected Results — Aligned with Government's priorities to develop innovative partnerships and financing to help address needs, while bending the cost curve to ensure sustainability. — The early stages of development of the Infrastructure Bank may provide opportunity to identify and work with the federal government on a project for the provision of social housing. Results will help define future projects and whether and how they are funded. — Potential ability to transfer risk and leverage private sector and other expertise to better meet needs and client outcomes. — Demonstrates alignment with Government's priorities and commitments. Key Considerations — Depending on discussions with the federal government, accessing the Infrastructure Bank may be a less complex and more cost effective means of accessing financing to help deliver on priority social outcomes. Suggested Immediate Next Steps — Establish a small core team of senior government officials and advisors to consider ideal project parameters and initiate preliminary discussions with the federal government to assess the potential.

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4.1 Assessment of Options

Short and Medium-Term Measures to Help Contain Costs

	Description	Comments

Organizational/ Policy Changes	— Merge MHRC and Rent Assist programs and establish a single service window (within MHRC or Families directly). A single service window will assist on the way to the Future State Vision (e.g., Rent Assist may be the best option in some cases versus social housing RGI in other cases.)
	— Consider policy options to contain escalating costs with respect eligibility and rent. For example:
	  — Consider standardizing and increasing the percent of gross income paid by tenants in RGI units to 30%, in line with other provinces.
	  — Consider putting on hold the legislated indexation of maximum Rent Assist benefits.
	  — Consider limiting the intake of Rent Assist applicants, which is increasing more than anticipated, to those most vulnerable while further analysis is being done on medium and longer-term options.
	  — Consider different approaches for affordable rent – i.e., as tenants income increases the percentage they pay of market rent or percent of income increases (as compared to the current system where the tenant pays fixed rent). This could increase rent revenue or lower subsidy amounts.
	— Consider implementing approximately $1.2M in operational savings noted in 2017/18 Preliminary Estimates submission (i.e., decreasing housing operating costs, miscellaneous expenditure reductions, laundry revenue, discretionary operating reductions, etc.).
		— Further analysis is needed to determine costs/benefits of merging programs and services, as well as policy options. Families notes it is exploring strategies to reduce caseloads and expenditures, including changes to Rent Assist eligibility requirements and benefit design.
		— MHRC has identified savings of approximately $4.5M from increasing RGI in MHRC owned units to 30% of gross income from the current 25% to 27% of gross income. However, rent supplement units also pay rent based on RGI along with units owned by NPO and Urban Indigenous groups. Standardizing RGI to 30% of gross income on all units would result in savings in excess of $4.5M.
		— Families has also identified a proposal to put on hold the legislated indexation of maximum Rent Assist benefits to avoid annual costs of ~$7M to $7.5M, based on changes in Median Market Rent in recent years ($5.83M - $6.25M in 2017/18, as benefits are paid towards end of June).

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4.1 Assessment of Options

Short and Medium-Term Measures to Help Contain Costs

	Description	Comments
Organizational/ Policy Changes	— MHRC: Take immediate steps to flatten management, widen spans and consider alternative delivery of non-strategic services that are not core business (examples may include: asset management, property management services, security and food services.	— — Consider opportunities and timing to focus on core business within the context of existing collective bargaining agreements, as well as the longer-term transformational options. This has the potential to flatten management, and reduce the footprint of government; FTE and program savings will be net of transition and contract costs. — MHRC has indicated that pest management and security services should be retained in-house. — As discussed in Section 3.2 Current State or Status Quo, administrative services appear high – consider further analyzing this for alternatives in the private sector and/or community.

4.1 Assessment of Options

Short and Medium-Term Measures to Help Contain Costs

	Description	Comments
Funding and Financing	— Defer new capital builds and lease from the private sector wherever possible to address short-term vacancy issues and needs. — Continue the strategy to divest assets with chronic vacancies. There are more than 300 units noted as being chronically vacant (not all standalone, some are within projects). — Consider partnering with municipalities and the private sector to address supply issues (e.g., conditions that encourage mixed use development that includes affordable housing). Consider available Crown and municipal land that could be utilized to partner with the private sector for new mixed use development.	— MHRC has identified $83M in new capital projects that can be stopped (and these were removed from the capital plan for 2017/18). — Some private sector owners may be unwilling to lease to certain social housing cohorts; may be lack of suitable leasing opportunities in some markets. — In the 2017/18 Preliminary Estimates Submission, Families has identified 15 chronically vacant units that could be sold for (net) one-time revenue of $1.6M over a two-year period. — Municipalities should play a greater role in helping to provide affordable housing in communities.

4.1 Assessment of Options

Short and Medium-Term Measures to Help Contain Costs

	Description	Comments
Funding and Financing	— Assess opportunities within the existing stock to subdivide land and partner with private sector or community for redevelopment (this may be a longer term option). — Consider whether there are opportunities to engage with private sector to redevelop some larger high value sites that are underutilized (once market conditions optimal)	— Potential to pursue alternative means of funding/financing supply and needs. This requires a greater understanding of the stock and the private sector and community market. — Helps to contain escalating amortization and interest costs, and helps avoid future costs/investments. — Related to the considerations herein, we also note: — MHRC has proposed in the 2017/18 Preliminary Estimates Submission to dispose of 185 Smith Street. This presents an opportunity to utilize one of these options (e.g., redevelopment) and engage with the private sector or community providers. This could provide a pilot project to move towards the Future State. — MHRC has also identified in the 2017/18 Preliminary Estimates Submission a proposal to sell five MHRC owned buildings to two non-profit organizations. The gain on sale is estimated at $14.8M. The current debt service costs and annual operating loss on these properties is $1.8M. MHRC estimates that the subsidy required to be paid on these units if sold would be $2.6M as 100% of the units are RGI units. This results in a net additional operating cost of $0.8M. However, if the buildings could pursue a mixed tenant approach on unit turnover (for example to market rents), this is estimated to reduce the subsidy required. MHRC has noted further work is required, but this could serve as a pilot project for asset transfer to move towards the Future State.

5.1 Preferred Option

Longer-Term Transformation Option

Based on our analysis of the current state, and our review of leading practices in select jurisdictions, KPMG suggests that Manitoba consider a hybrid option over the long-term (option C):

— Where tenants requiring the least supports receive a voucher towards renting from a private landlord; and

— The most vulnerable tenants are allocated to a social house which is provided by MHRC or Families directly, or under contract between government and a private or community provider, with performance and accountability measures.

The decision between the two above options is made based on the needs of the tenant, the preferences of the tenant and the availability of contracted houses.

In most jurisdictions, traditional government-owned and managed public housing provides the large majority of social housing, with non-government providers supplying the balance. Unsustainable public funding is a challenge facing social housing systems in Canada and internationally.

Local conditions that influence housing markets and different definitions and thresholds of affordable housing make it very difficult to compare housing policies across jurisdictions. Leading practice transformation reforms suggest that the public sector needs to retain control over social housing policy, regulatory and accountability (such as setting the rules, contracts and measuring performance). Social housing stock and service delivery functions are undertaken by government, and for government by contracted providers. The right mix is the challenge of any jurisdiction due to a wide range of demographic, socio-economic, market supply and demand, and other factors.

5.1 Preferred Option

The trend in other Canadian and international jurisdictions is to transfer some public sector social housing assets and new builds to the private sector and community organizations, to varying extents. Manitoba has a high level of public sector housing. For example, MHRC assets (and debt) are approximately $1 billion, compared to assets of approximately $320 million at Saskatchewan Housing Corporation. Ontario has devolved social housing to municipalities and regions. B.C. appears to have a relatively high level of involvement of non-government organizations in delivery.

Under a transformational model with a mix of ownership and management of social housing, the benefit to the Government is reducing the level of assets and associated debt, amortization and interest, along with reducing pressures for future maintenance investment in the social sector. There are risks associated with the lack of capacity and performance on assets transferred, and risk that government ends up taking back assets or paying more for subsidies. Risks can be mitigated by appropriate contracts and agreements, with clear responsibilities, transfer of risk, performance and accountability. Proper due diligence and focus on only moving certain assets to capable, stable, high-performing entities is required. This should lead to MHRC working with a relatively low number of high performers developing economies of scale and proving value for money, and moving away from non-performing organizations, resulting in a fewer number of organizations overall in Manitoba's social housing system.

The current model is unsustainable and the cost curve is increasing. Significant transformation is required in the system, and completion of various actions (outlined in the hybrid option previously presented and in the following implementation plan framework at a high-level) will be required to bend the cost curve. A "one-size fits all" approach will not apply to every asset transfer or agreement or apply to every community. As certain assets are transferred to other organizations that are ready, capable and fiscally responsible, if the ongoing subsidy costs are greater than the current costs this will not lower the cost curve. It is important that for each step taken towards the transformation option (whether an asset transfer, partnering with private sector or municipalities, redevelopment opportunity, etc.) that building sustainability into the new model, along with meeting the needs of the most vulnerable, be a key consideration. Additionally, implementing the short-term options on the following page will help bend the cost curve while the long-term transformation option is being implemented.

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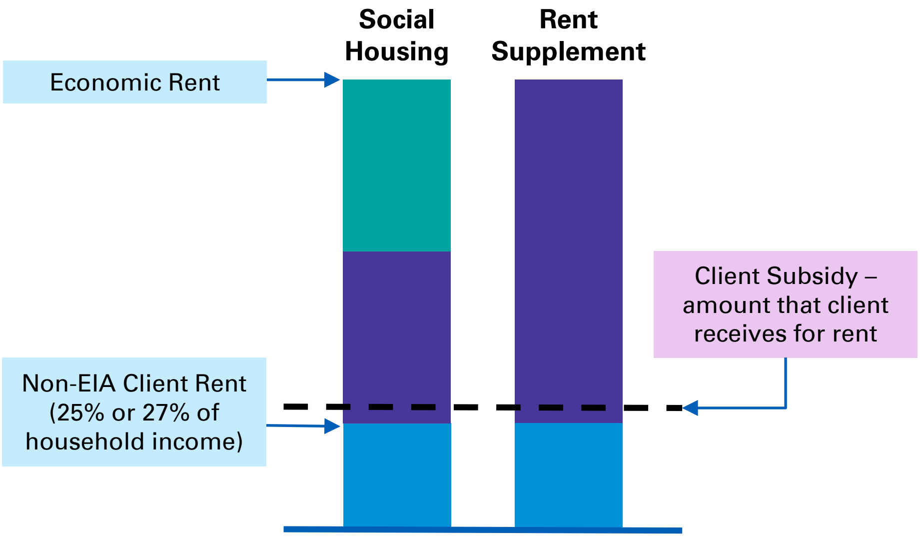
5.1 Preferred Option

Short and Medium-Term Measures to Help Contain Costs

In the 2016/17 Budget, social housing costs (in the form of the transfer payment to MHRC) grew by $46M due to increase in debt service costs, delivery of new social and affordable rental housing units and a decrease in one-time funding sources and Federal funding under the Social Housing Agreement. Rent assistance grew by $29M due to the annual impact of increasing the maximum benefit to 75% of Median Market Rent (MMR) and indexing the benefit to the MMR beginning in 2016/17. The cost curve for social housing is forecasted to increase over $10M per year if the status quo is maintained. Rent Assist is forecasted to increase $7.5M per year annually excluding caseload growth (which is increasing). In order to bend the costs curve, a number of short and medium-term measures are proposed for consideration. These effectively improve costs by approximately $13.9M annually from the 2016/17 Budget, plus there may be an opportunity for a one-time revenue of $14.7M from the sale of five MHRC buildings and the sale of chronically vacant units.

In addition to consolidating the Rent Assist and MHRC subsidy programs into a single window, raising the RGI for tenants to 30%, and putting indexing on hold, the Department should consider policy changes to limit eligibility of Rent Assist to those most in need, while conducting their further internal review.

Short-term Measure Proposed: Increase rent paid in RGI units to 30% of household income



5.2 Potential Financial Impacts and Cost Improvement

The transformation options outlined are at a high-level and will require further detailed planning to understand related financial impacts and costs. We would suggest focusing detailed efforts and next steps on Manitoba's selected transformation option.

The following table summarizes estimated financial impacts and cost improvements of the *shorter term* measures that have been proposed to contain costs. A portion of these savings could be utilized to help fund transition work.

Shorter term measures to contain costs	**2017/18 (approximate $ millions)**
Consider policy options to contain escalating costs with respect to eligibility and rent: — Increase percent of gross income paid by tenants to 30% for those in RGI units. Per calculations done by MHRC, increasing to 30% in MHRC owned units would save approximately $4.5M. If this is extended to all units paying RGI (rent supplement, units owned by the community), this would further increase savings	$4.5M+
Consider putting on hold the legislated indexation of maximum rent assist benefits.	$6.0M
Operational savings identified by MHRC in the 2017/2018 Preliminary Estimates	$1.2M
Elimination of 42 MHRC positions as identified in the 2017/2018 Preliminary Estimates	
One-time revenue opportunities:	
Sale of chronically vacant units as identified in the 2017/2018 Preliminary Estimates (one-time revenue)*	$0.6M
Sale of five MHRC owned buildings to two non-profit organizations as identified in the 2017/2018 Preliminary Estimates (one-time revenue)*	$14.1M
Total, estimated revenue opportunities (one-time)	**$14.7M**

* Note: necessary steps to prepare for and complete transactions may not occurred in 2017/18.

5.3 Risks

We present overall transformation risks, regardless of the transformation option selected by Manitoba, along with the potential likelihood and impact that the risk occurs and some mitigating actions that the Province could take to manage them.

A detailed risk register should be developed for Manitoba's selected transformation option and short-term measures.

Risks	Likelihood	Impact	Mitigating Actions
Public perception — The public could perceive that the Province is reducing social housing or making it less affordable for those most vulnerable.	High	Medium	— A robust change management and communications strategy will be needed. — Early conversations should be started with existing providers and interest groups to build an understanding of why change is needed, and expected benefits which include enhanced supports to vulnerable Manitobans. — Consider selecting an option that balances reductions in some areas with enhancements to social housing related supports and outcomes for most vulnerable.
Inability to achieve timely (net) cost improvements — A truly transformative approach will take years to implement, and may not yield substantial net cost improvements in a timely manner.	Medium	Medium	— A Transformation Framework and Roadmap will be needed, with clear milestones and timing, to drive progress and ensure timely results. — A comprehensive benefits realization plan should be developed to support the implementation of the changes to track, measure, and monitor the resulting benefits. — Continually assess ability to deliver fiscal sustainability during the detailed design work, and early pilot projects.
Current housing stock not conducive to timely transformation — The size, value, condition of certain housing stock may not be conducive to moving forward with transformation efforts.	High	Medium	— A comprehensive analysis of the portfolio should be undertaken to assess priority needs, potential implications and timing of benefits realization.

5.3 Risks

Risks	Likelihood	Impact	Mitigating Actions
Lack of market capacity — Will impact the ability to move forward with plans. — Limited capability to effectively transfer select assets.	High	High	— Early and ongoing discussions with the market will help to set realistic expectations and transformation plans. — Private and community-based providers should be involved in the market sounding and co-design of the market in order to plan for changes. — Solid due diligence and performance requirements in agreements for transfer of any assets to qualified, high-performing private and community-based providers.
Lack of capabilities in Department — Some of the changes envisioned will require different capabilities in the Department (e.g. performance management, contract management) that may not currently exist.	High	Medium	— Determine the required capabilities for the future changes and map out existing capabilities to determine where gaps exist. — A training strategy and plan will be needed to roll out new requirements and provide ongoing supports to Department staff who are involved. — In the short-term, can consider supplementing current capabilities with expertise to build self-sufficiency.
Union criticism — Based on changes outlined, there may be some workforce reductions and / or redeployments required (within MHRC in particular). — Unions may be critical of the transformations outlined, stressing changes will result in reduced services to those in need.	High	Low	— A detailed workforce strategy and plan will be needed to assess the workforce changes and impacts, and appropriately identify where reductions are required and / or where staff redeployments could be used. — Enter into conversations with the union and MHRC early to identify anticipated direction and involve them in planning.

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5.4 Implementation Plan Framework at a High Level

The following outlines a high-level plan to move forward with the suggested long-term transformation option. Additional details will need to be developed in the context of the decisions Manitoba makes.

	2017/18	2 years to 5 years	>5 years
Hybrid option transformation	— Establish core team of experts and advisors (housing, policy, finance, legal, HR, etc.) to lead detailed planning and consultations for selected transformation option, including: — Detailed description of Future State and roles. — Compile data on current and future demand / tenant need (number, location, household type, specialist support, etc.) — Asset condition assessment across portfolio. — Define suggested mix between two mechanisms (i.e., tenants to receive a voucher and tenants allocated to a social house provided under contract), based on the needs and preferences of the tenant and the availability of contracted houses. — Define service levels and assess impact on cost to serve (tenant services, property quality etc.). — Assess potential impact of social housing reform on wider housing market, based on proportion of households in each community which receives housing support. — Cost-Benefit analysis of two mechanisms (includes consideration of different funding sources). — Tenant transition plans and workforce strategy. — Implementation Strategy, with phased-roll out, including first market transactions. — Communications Strategy. — Initial market sound to test transformation principles and feasibility of high-level plans (adjust recommended approach based on feedback received). — Complete detailed business plan for 2018/19 budget process.	— Scope first transactions. — Draft contract structures based on location, tenant needs and asset portfolio, including risk allocation, detailed commercial structure and payment mechanism, based on evidence collected over previous 6 months. — Develop detailed transition plan based on the nature of the commercial structures and market capability. — Market sound to test detailed commercial designs and initial transactions. — Initiate first transaction processes. — Adjust approach and roll-out plan based on lessons learned.	— Continue with phased roll-out.

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5.4 Implementation Plan Framework at a High Level

The following outlines the high-level plan to implement specific shorter-term options put forward. These are intended to be directional, as additional details will need to be developed as decisions are made regarding these directions. Certain shorter-term measures may be impacted by the longer-term transformation path.

	First year	1 year – 2 years	>2 years
Merge MHRC and Rent Assist	— Determine costs/benefits of merging programs and services as well as policy options. — Develop policy and service delivery parameters, implementation and communications strategies.	— Consultations with interest groups. — Merge MHRC and Rent Assist and establish a single service window.	— Monitor/ adjust services as needed.
Policy options to contain costs: eligibility and rent	— Assess impacts of increasing percentage of rent to 30% on RGI units, make decision to increase percentage of rent on RGI units and inform tenants. — Assess regulatory or legislative requirements and develop implementation and communications strategies. — Assess other policy options around eligibility and rent to contain costs in the short term.	— Implement other policy options around eligibility and rent (if applicable).	— Monitor/ adjust services as needed.
Flatten management, widen spans and consider alternative service delivery of non-strategic services	— Consider and identify immediate opportunities to widen span of control and flatten senior/middle management. — Assess cost-benefits and impacts of delivering non-strategic services through alternative service delivery (i.e., asset management, property management, food service, security, etc). — Consider feasibility of outsourcing non-strategic services in context of moving forward with selected transformation option (includes market considerations).	— Develop and implement alternative service delivery strategies, if applicable (note that roll-out will need to be aligned with Manitoba's Labour Relations Strategy).	— Monitor/ adjust services as needed.

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5.4 Implementation Plan Framework at a High Level

(continued)

	First year	1 year – 2 years	>2 years
Assess opportunities to subdivide land and partner with market for redevelopment	— Perform comprehensive assessment of housing stock portfolio to identify opportunities for redevelopment (by subdividing land, high value sites that are underutilized, etc.). — Identify specific opportunities and timing, in context of addressing priority tenant needs. — Initial market sounding to test feasibility of specific opportunities. Adjust plans based on feedback received. — Draft contract structure (align efforts with selected transformation option).	— Market sound on specific transaction opportunities prior to proceeding to procurement. — Use findings from pilot projects (e.g., 185 Smith Street and the five MHRC owned properties identified for transfer to NPOs) to inform strategy for other properties.	— Continue roll-out of redevelopment opportunities or transfer of assets, if applicable.

Appendix A - MHRC Income Statement

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Manitoba Housing and Renewal Corporation - Income Statement

	2012	2013	2014	2015	2016	5 Year Change	Change
Revenue:							
Grants from the Province of Manitoba (note 13)	67,046,063	66,219,630	71,240,597	70,859,367	80,129,455	13,083,392	20%
Contributed services (note 14)	2,269,700	2,292,200	2,536,400	2,487,000	2,360,800	91,100	4%
Rental revenue (note 15)	74,179,002	73,126,445	72,648,883	77,721,640	79,694,089	5,515,087	7%
Other government contributions (note 16)	86,313,646	63,707,048	62,137,293	65,327,617	61,897,090	(24,416,556)	-28%
Housing Development and Rehabilitation Fund (note 12)	6,091,154	3,362,314	6,498,139	38,163,064	19,734,766	13,643,612	224%
Recoveries related to advance agreement (note 17)		4,300,000	(4,002,229)	1,293,872	1,943,423	1,943,423	
Amortization of deferred contributions (note 12)	339,771	224,449	738,231	622,928	925,878	586,107	173%
	236,239,336	213,232,086	211,797,314	256,475,488	246,685,501	10,446,165	4%
Interest:							
Loans and mortgages	11,933,067	11,090,661	10,681,580	10,072,236	9,478,927	(2,454,140)	-21%
Bank and other	241,147	183,041	244,735	195,466	261,320	20,173	8%
	12,174,214	11,273,702	10,926,315	10,267,702	9,740,247	(2,433,967)	-20%
Sales of land:							
Waverley West (note 12)	40,028,159	46,209,751	32,330,153	28,884,716	30,919,335	(9,108,824)	-23%
Other land holdings	9,177,816	-	25,305,000	2,255,654	1,926,000	(7,251,816)	-79%
Joint venture (note 7)	79,689	(58,595)	(6,164)			(79,689)	-100%
	49,285,664	46,151,156	57,628,989	31,140,370	32,845,335	(16,440,329)	-33%
Gain on disposal of capital assets	(1,495)	2,355,534	1,121,028	1,400,318	2,493,865	2,495,360	-166,914%
Other	3,178,826	929,911	902,290	1,345,114	1,337,318	(1,841,508)	-58%
Total revenue	300,876,545	273,942,389	282,375,936	300,628,992	293,102,266	(7,774,279)	-3%

Source: Derived from information provided by Manitoba for the year ending March 31st.

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Manitoba Housing and Renewal Corporation - Income Statement

	2012	2013	2014	2015	2016	5 Year Change	Change
Expenses:							
Housing operations - excluding amortization and interest (note 15)	131,918,356	119,595,206	129,014,931	129,845,306	129,466,928	(2,451,428)	-2%
Housing operations amortization (note 15)	11,711,671	14,762,645	20,832,090	27,007,136	35,826,507	24,114,836	206%
Housing operations interest (note 15)	20,805,657	21,680,701	25,193,285	27,776,303	31,059,789	10,254,132	49%
Rental subsidies (note 18)	37,345,641	36,785,153	36,133,260	37,751,093	38,816,894	1,471,253	4%
Grants and subsidies (note 19)	4,188,964	4,168,687	5,092,866	5,238,779	5,056,892	867,928	21%
Interest expense	14,060,417	13,897,559	12,127,010	11,476,109	10,730,325	(3,330,092)	-24%
Administrative services	3,807,800	3,630,400	5,137,900	4,886,700	4,380,700	572,900	15%
Provision for loss and write downs	782,727	160,318	(510,007)	55,080	15,450	(767,277)	-98%
Cost of land sales - joint venture (note 7)	79,689	(58,595)	(6,164)	1,016	143,248	63,559	80%
Cost of land sales - Waverley West (note 12)	40,028,159	46,209,751	32,330,153	28,884,716	30,919,335	(9,108,824)	-23%
Cost of land sales - other land holdings	812,950	-	1,400,000	30,366	483,262	(329,688)	-41%
Housing program supports (note 20)	32,271,521	15,728,637	13,227,071	17,312,810	16,708,380	(15,563,141)	-48%
Pension (note 21)	393,376	(304,254)	396,349	36,506	(944,252)	(1,337,628)	-340%
Expenses related to advance agreement (note 17)		4,300,000	(4,002,229)	1,293,872	1,943,423	1,943,423	
Other amortization		29,893	104,196	177,378	177,378	177,378	
Other	1,013,303	704,473	954,343	623,624	557,414	(455,889)	-45%
Total Expenses	299,220,231	281,290,574	277,425,054	292,396,794	305,341,673	6,121,442	2%
Excess (deficiency) of revenue over expenses	1,656,314	(7,348,185)	4,950,882	8,232,198	(12,239,407)	(13,895,721)	-839%

Source: Derived from information provided by Manitoba for the year ending March 31st.

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